SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

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

For the fiscal year ended December 31, 1995

Commission File No. 0-11576

HARRIS & HARRIS GROUP, INC.

(Exact name of registrant specified in its charter)

New York	13-3119827
(State or other jurisdiction of incorporation or organization)	(I.R.S. EmployerIdentification No.)

One Rockefeller Plaza, Rockefeller Center, New York, New York	10020
(Address of principal executive offices)	(Zip Code)

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

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

None

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

Common Stock $ .01 par value

(Title of class)

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

The aggregate market value of the Common Stock held by non-affiliates of Registrant as of March 15, 1996 was $51,000,204 based on the last sale price as quoted by NASDAQ on such date (only officers and directors are considered affiliates for this calculation).

As of March 15, 1995, the registrant has 10,333,902 shares of common stock, par value $ .01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

	Part of Form 10K
(1) Annual Report to Shareholders for the Year Ended December 31, 1995.	Parts I and II; and Part IV, Item 14(a) (1) and (2)
(2) Proxy Statement for Annual Meeting of Shareholders to be held April 11, 1996.	Part III

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Item 1. Business

Harris & Harris Group, Inc. (the "Registrant" or "Company") is a venture capital investment company, operating as a Business Development Company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). The Company's objective is to achieve long-term capital appreciation, rather than current income, from its investments. The Company has invested, and expects to continue to invest, a substantial portion of its assets in private, development stage or start-up companies, and in the development of new technologies in a broad range of industry segments. 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. The Company may also invest, to the extent permitted under the 1940 Act, in publicly-traded securities, including high risk securities as well as investment grade securities. The Company may participate in expansion financing and leveraged buy-out financing of more mature operating companies as well as other investments. As a venture capital company, the Company invests in, and provides managerial assistance to, its private investees which, in its opinion, have significant potential for growth. There is no assurance that the Company's investment objective will be achieved.

The Registrant was incorporated under the laws of the State of New York in August 1981. Prior to September 30, 1992, the Company was registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company. On that date the Company commenced operations as a closed end, non-diversified investment company under the 1940 Act. On July 26, 1995, the Company elected to become a business development company subject to the provision of Sections 55 through 65 of the 1940 Act, as amended by the Small Business Incentive Act of 1980. As a BDC, 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.

Venture Capital Investments

The Company has invested, and expects to continue to invest, a substantial portion of its assets in private, development stage or start-up companies. The Company may initially own 100 percent of the securities of a start-up investment for a period of time and may control such company for a substantial period. In connection with its venture capital investments, the Company may be involved in recruiting management, formulating operating strategies, product development, marketing and advertising, assisting in financial plans, as well as providing management in the initial, start-up stages and establishing corporate goals. The Company may assist in raising additional capital for such companies from other potential investors and may subordinate its own investment to that of other investors. The Company may also find it necessary or appropriate to provide additional capital of its own. The Company may introduce such companies to potential joint venture partners, suppliers and customers. In addition, the Company may assist in establishing relationships with investment bankers and other professionals. The Company may also assist with mergers and acquisitions. The Company may derive income from such companies for the performance of any of the above services. Because of the speculative nature of these investments and the lack of any market for such securities, 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 likely to become successful, but never realize their potential. The Company has been and will continue to be risk seeking rather than risk averse in its approach to its venture capital and other investments.

The Company may control a company for which it has provided venture capital, or it may be represented on the company's board of directors by one or more of its officers or directors, who may also serve as officers of such a company. Particularly during the early stages of an investment, the Company may in effect be conducting the operations of the company. As a venture company emerges from the developmental stage with greater management depth and experience, the Company expects that its role in the company's operations will diminish. The Company seeks to assist each company in establishing its own independent capitalization, management and board of directors. The Company expects to be able to reduce its active involvement in the management of its investment in those start-up companies that become successful by a liquidity event, such as a public offering or sale of a company.

The Company has invested and expects to continue to invest a substantial portion of its assets in securities that do not pay interest or dividends and that are subject to legal or contractual restrictions on resale that may adversely affect the liquidity and marketability of such securities.

The Company expects to make speculative investments that have limited marketability and a greater risk of investment loss than less speculative issues. The Company does not seek to invest in any particular industries or categories of investments.

Intellectual Property

The Company believes there is a role for organizations that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property increasingly seek the rewards of entrepreneurial commercialization of their inventions, particularly as governmental, philanthropic and industrial funding for research has become harder to obtain. The Company believes that several factors combine to give it a high value-added role to play in the commercialization of technology: its experience in organizing and developing successful new companies; its willingness to invest its own capital at the highest risk, seed stage; its access to high-grade institutional sources of intellectual property; its experience in mergers, acquisitions and divestitures; its access to and knowledge of the capital markets; and its willingness to do as much of the early work as it is qualified to do.

The Company's form of investment may include: 1) funding of research and development in the development of a technology; 2) obtaining licensing rights to intellectual property or patents; 3) outright acquisition of intellectual property or patents; and 4) formation and funding of companies or joint ventures to commercialize intellectual property. Income from the Company's investments in intellectual property or its development may take the form of participation in licensing or royalty income, fee income, or some other form of remuneration. At some point during the commercialization of a technology, the Company's investment may be transformed into ownership of securities of a development stage or start-up company as discussed above. Investing in intellectual property is highly risky.

Illiquidity of Investments

Many of the Company's investments consist of securities acquired directly from the issuer in private transactions. They may be subject to restrictions on resale or otherwise be illiquid. The Company does not anticipate that there will be any established trading market for such securities. Additionally, many of the securities that the Company may invest in will not be eligible for sale to the public without registration under the Securities Act of 1933, as amended, which could prevent or delay any sale by the Company of such investments or reduce the amount of proceeds that might otherwise be realized therefrom. Restricted securities generally sell at a price lower than similar securities not subject to restrictions on resale. Further, even if a portfolio company or investee registers its securities and becomes a reporting company under the Securities and Exchange Act of 1934, the Company may be considered an insider by virtue of its board representation and would be restricted in sales of such company's securities.

Managerial Assistance

The Registrant believes that providing managerial assistance to its investees is critical to its business development activities. "Making available significant managerial assistance" as defined in the 1940 Act with respect to a business development company such as the Registrant means (a) any arrangement whereby a business development company, through its directors, officers, employees or general partners, offers to provide, and if accepted, does so provide, significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company; or (b) the exercise by a business development company of a controlling influence over the management or policies of a portfolio company by a business development company acting individually or as a part of a group acting together which controls such portfolio company. The Registrant is required by the 1940 Act to make significant managerial assistance available at least with respect to investee companies that the Registrant treats as qualifying assets for purposes of the 70% test (see "Regulation"). The nature, timing, and amount of managerial assistance provided by the Registrant vary depending upon the particular requirements of each investee company.

The Registrant may be involved with its investees in recruiting management, product planning, marketing and advertising and the development of financial plans, operating strategies and corporate goals. In this connection, the Registrant may assist clients in developing and utilizing accounting procedures to efficiently and accurately record transactions in books of account which will facilitate asset and cost control and the ready determination of results of operations. The Registrant also seeks capital for its investees from other potential investors and occasionally subordinates its own investment to those of other investors. The Registrant introduces its investees to potential suppliers, customers and joint venture partners and assists its investees in establishing relationships with commercial and investment bankers and other professionals, including management consultants, recruiters, legal counsel and independent accountants. The Registrant also assists with joint ventures, acquisitions and mergers.

In connection with its managerial assistance, the Registrant may be represented by one or more of its officers or directors on the board of directors of an investee. As an investment matures and the investee develops management depth and experience, the Registrant's role will become

progressively less active. However, when the Registrant owns or on a pro forma basis could acquire a substantial proportion of a more mature investee company's equity, the Registrant remains active in and will frequently initiate planning of major transactions by the investee. The Registrant's goal is to assist each investee company in establishing its own independent and effective board of directors and management.

Need for Follow-On Investments

Following its initial investment in investees, the Company has made and anticipates that it will continue to make additional investments in such investees as "follow-on" investments, in order to increase its investment in an investee, and may exercise warrants, options or convertible securities that were acquired in the original financing. Such follow-on investments may be made for a variety of reasons including: 1) to increase the Company's exposure to an investee, 2) to acquire securities issued as a result of exercising convertible securities that were purchased in the original financing, 3) to preserve the Company's proportionate ownership in a subsequent financing, or 4) in an 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 such investments; the Company will have the discretion to make any 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 an investee and the Company's initial investment, or may result in a missed opportunity for the Company to increase its participation in a successful operation.

Competition

Numerous companies and individuals are engaged in the venture capital business and such business is intensely competitive. Most of the competitors have significantly greater experience, resources and managerial capabilities than the Company and are therefore in a better position than the Company to obtain access to attractive venture capital investments.

Regulation

The Small Business Investment Incentive Act of 1980 modified the provisions of the 1940 Act that are applicable to a BDC. After filing its election to be treated as a BDC, a company may not withdraw its election without first obtaining the approval of holders of a majority of its outstanding voting securities. The following is a brief description of the 1940 Act, as modified by the Small Business Investment Incentive Act of 1980, and as qualified in its entirety by the reference to the full text of the 1940 Act and the rules thereunder by the Securities and Exchange Commission (the "SEC").

Generally, to be eligible to elect BDC status, a company must primarily engage in the business of furnishing capital and managerial expertise to companies which do not have ready access to capital through conventional financial channels. Such portfolio companies are termed "eligible portfolio companies." More specifically, in order to qualify as a BDC, a company must (i) be a domestic company, (ii) have registered a class of its securities or have filed a registration statement with the SEC pursuant to Section 12 of the Exchange Act of 1934; (iii) operate for the purpose of investing in the securities of certain types of portfolio companies, namely, immature or emerging companies and businesses suffering or just recovering from financial distress (see following paragraph); (iv) extend significant managerial assistance to such portfolio companies; (v) have a majority of "disinterested" directors (as defined in the 1940 Act); and (vi) file (or, under certain circumstances, intend to file) a proper notice of election with the SEC.

An eligible portfolio company generally is a domestic company that is not an investment company and that (i) does not have a class of securities registered on an exchange or included in the Federal Reserve Board's over-the-counter margin list; (ii) is actively controlled by a BDC and has an affiliate of a BDC on its board of directors; or (iii) meets such other criteria as may be established by the SEC. Control under the 1940 Act is presumed to exist

where a BDC owns 25% of the outstanding securities of the investee.

The 1940 Act prohibits or restricts companies subject to the 1940 Act from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the 1940 Act limits the type of certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of acquisition, less than 70% of the value of the Company's assets consist of qualifying assets. Qualifying assets include: (i) securities of companies that were eligible portfolio companies at the time such company acquired their securities; (ii) securities of bankrupt or insolvent companies that were eligible at the time of such company's initial investment in those companies: (iii) securities received in exchange for or distributed in or with respect to any of the foregoing; and (iv) cash items, government securities and high-quality short-term debt. The 1940 Act also places restrictions on the nature of the transactions in which, and the persons for whom, securities can be purchased in order for the securities to be considered qualifying assets. Such restrictions include limiting purchases to transactions not involving a public offering and acquiring securities from either the portfolio company or their officers, directors or affiliates.

The Company is permitted by the 1940 Act, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock if its asset coverage, as defined in the 1940 Act, is at least 200% after the issuance of the debt or the preferred stock (i.e., such senior securities may not be in excess of 50% of its net assets). If the value of the Company's assets, as defined, were to increase through the issuance of additional capital stock or otherwise, the Company would be permitted under the 1940 Act to issue senior securities.

The Company may sell its securities at a price that is below the prevailing net asset value per share only after a majority of its disinterested directors has determined that such sale would be in the best interests of the Company and its stockholders and upon the approval by the holders of a majority of its outstanding voting securities, including a majority of the voting securities held by non-affiliated persons. If the offering of the securities is underwritten, a majority of the disinterested directors must determine in good faith that the price of the securities being sold is not less than a price which closely approximates market value of the securities, less any distribution discount or commission. As defined by the 1940 Act, the term "majority of the Company's outstanding voting securities" means the vote of (i) 67% or more of the Company's Common Stock present at the meeting, if the holders of more than 50% of the outstanding Common Stock are present or represented by proxy, or (ii) more than 50% of the Company's outstanding Common Stock, whichever is less.

Most of the transactions involving the Company and its affiliates (as well as affiliates of those affiliates) which were prohibited without the prior approval of the Commission under the 1940 Act prior to its amendment by the Small Business Investment Incentive Act are now permissible upon the prior approval of a majority of the Company's independent directors and a majority of the directors having no financial interest in the transactions. However, certain transactions involving certain closely affiliated persons of the Company, including its directors, officers, and employees, may still require the prior approval of the Commission. In general, (i) any person who owns, controls or holds power to vote, more than 5% of the Company's outstanding Common Stock; (ii) any director, executive officer or general partner of that person; and (iii) any person who directly or indirectly controls, is controlled by, or is under common control with, that person, must obtain the prior approval of a majority of the Company's independent directors and, in some situations, the prior approval of the Commission, before engaging in certain transactions involving the Company or any company controlled by the Company. The 1940 Act generally does not restrict transactions between the Company and its portfolio companies. While a BDC may change the nature of its business so as to cease being a BDC (and in connection therewith withdraw its election to be treated as a BDC) only if authorized to do so by a majority vote (as defined in the 1940 Act) of its outstanding voting securities, stockholder approval of changes in other fundamental investment policies of a BDC is not required (in contrast to the general 1940 Act requirement, which requires stockholder approval for a change in any fundamental investment policy). The Company is entitled to change its diversification status without

stockholder approval.

Item 2. Properties

The Company maintains its offices at One Rockefeller Plaza, Suite 1430, New York, New York 10020, where it leases approximately 3,400 square feet of office space pursuant to a lease agreement expiring in 2003.

Item 3. Legal Proceedings

None.

Item 4. Submission of Matters to a Vote of Security Holders

On Friday, October 20, 1995, Registrant held its Annual Meeting of Shareholders, for the following purposes: 1) to elect directors of the Company; 2) to consider and act upon a proposal to authorize options to be automatically granted to non-employee Directors under the 1988 Stock Option Plan; 3) to ratify, confirm and approve the Board of Directors' selection of Arthur Andersen LLP as the Company's independent public accountant for its fiscal year ending December 31, 1995. All of the nominees at the October 20, 1995 annual meeting were elected directors by an affirmative vote of at least 89% of the total shares outstanding. With respect to purpose number two, described as proposal "to consider and act upon a proposal to authorize options to be automatically granted to non-employee Directors under the 1988 Stock Option Plan" in the Registrant's 1995 Proxy Statement, the affirmative votes cast were 8,528,138, the negative votes cast were 514,787 and those abstaining were 109,405, effecting passage. With respect to purpose number three, described as proposal "to ratify, confirm and approve the Board of Directors' selection of Arthur Andersen LLP" as the Company's independent public accountant for its fiscal year ending December 31, 1995, the affirmative votes cast were 9,140,065, the negative votes cast were 31,050 and those abstaining were 55,050, effecting passage.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The information set forth under the caption "Shareholder Information-Shareholders and Market Prices" on page 36 of the 1995 Annual Report is herein incorporated by reference.

Item 6. Selected Financial Data

<TABLE>
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Financial Position as of December 31:

<S>	<C> 1995	<C> 1994	<C> 1993	<C> 1992
Total assets	$ 37,524,555	$ 32,044,073	$ 34,534,724	$ 29,377,482
Liabilities	$ 962,646	$ 733,271	$ 1,785,427	$ 6,724,139
Net asset value	$ 36,561,909	$ 31,310,802	$ 32,749,297	$ 22,653,343
Net asset value per share	$ 3.54	$ 3.43	$ 3.66	$ 2.71
Shares outstanding	10,333,902	9,136,747	8,944,828	8,350,999

</TABLE>

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Operating Data for year ended December 31 unless otherwise noted:

<S>	<C>	<C>	<C>	<C>
				Three months ended
	1995	1994	1993	December 31, 1992
Revenues	$ 1,109,517	$ 820,276	$ 453,950	$ 167,668
Net operating loss	(1,099,409)	(2,278,882)	(1,614,625)	(203,295)
Net realized gain (loss) on investments	1,371,349	96,856	23,590,570	(128,332)
Net realized income (loss)	271,940	(2,182,026)	21,975,945	(331,627)
Net increase (decrease) in realized appreciation on investments	158,219	(886,040)	(13,083,344)	(1,247,191)
Net increase (decrease) in net assets resulting from operations	430,159	(3,068,066)	8,892,601	(1,578,818)
Increase (decrease) in net assets resulting from operations per share	$ 0.04	$ (0.34)	$ 1.03	$ (0.19)

</TABLE>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Pages 31 through 35 of the Company's 1995 Annual Report are herein incorporated by reference.

Item 8. Financial Statements and Supplementary Data

Pages 12 through 30 of the Company's 1995 Annual Report are herein incorporated by reference. See also Item 14 of the Form 10K - "Exhibits, Financial Statement Schedules and Reports of Form 8K"

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Election of Directors" on page 3 and "Executive Officers" on page 8 in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held April 11, 1996, filed

pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about March 4, 1996 (the "1996 Proxy Statement") is herein incorporated by reference.

Item 11. Executive Compensation

The information set forth under the caption "Summary Compensation Table" on page 11 in the 1996 Proxy Statement is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption "Security ownership of Directors, Nominees, and Officers and other principal holders of the Corporations's voting securities" on page 7 in the 1996 Proxy Statement is herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions

There were no relationships or transactions within the meaning of this item during the year ended December 31, 1995.

Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

(a) (1)The following financial statements included on pages 12 through 30 of the Company's 1995 Annual Report are herein incorporated by reference:

(A) Statement of Assets and Liabilities as of December 31, 1995 and 1994
Statement of Operations for the years ended December 31, 1995, 1994 and 1993
Statement of Changes in Net Assets for the years ended December 31, 1995, 1994, and 1993
Statement of Cash Flows for the years ended December 31, 1995, 1994, and 1993

(B) Notes to Financial Statements

(C) Financial Highlights (selected per share data and ratio)

(a)(2)The following financial statement schedules are submitted herewith:

Schedule I - Marketable Securities - Other Investments

The information set forth under the captions "Schedule of Investments" and "Footnote to Schedule of Investments" on pages 16 through 23 of the 1995 Annual Report are herein incorporated by reference.

Schedules other than those listed above have been omitted because they are not applicable or the required information is presented in the financial statements and/or related notes.

(a)(3)Exhibits. The exhibits which are filed with this Form 10-K or incorporated herein by reference are set forth in the Exhibit Index on page 13.

(b) Reports on Form 8-K. The Registrant did not file any reports of Form 8-K during the last quarter of 1995.

SIGNATURES

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

HARRIS & HARRIS GROUP, INC.

Date: March 28, 1996 By: /s/_____
Charles E. Harris
Chairman of the Board

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

<TABLE>

<S>	<C>	<C>
Signatures	Title	Date
/s/_____ Charles E. Harris	Chairman of the Board of Directors and Chief Executive Officer	March 28, 1996
/s/_____ Robert B. Schulz	President, Chief Operating Officer and Chief Compliance Officer	March 28, 1996
/s/_____ C. Richard Childress	Executive Vice President and Chief Financial Officer	March 28, 1996
/s/_____ David C. Johnson, Jr.	Executive Vice President	March 28, 1996
/s/_____ Rachel M. Pernia	Vice President, Controller, Treasurer and Principal Accounting Officer	March 28, 1996

/s/_____ C. Wayne Bardin	Director	March 25, 1996
/s/_____ G. Morgan Browne	Director	March 25, 1996
/s/_____ Harry E. Ekblom	Director	March 22, 1996
/s/_____ Charles F. Hays	Director	March 28, 1996
/s/_____ Jon J. Masters	Director	March 26, 1996
/s/_____ Glenn E. Mayer	Director	March 28, 1996
/s/_____ William R. Polk	Director	March 24, 1996
/s/_____ James E. Roberts	Director	March 21, 1996

</TABLE>

EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated

herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934. (Asterisk denotes exhibits filed with this report.)

Exhibit No.		Description
3.1(a)	*	Restated Certificate of Incorporation of the Registrant, as amended, incorporated by reference to Exhibit 3 (a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
3.1(b)	*	Restated By-laws of the Registrant.
4.1		Specimen certificate of common stock certificate, incorporated by reference to Exhibit 4 to Company's Registration Statement on Form N-2 filed October 29, 1992.
8.1	*	Harris & Harris Group, Inc. 1988 Stock Option Plan, as amended and restated.
9.1	*	Harris & Harris Group, Inc. Custodian Agreement with JP Morgan
10.1		Employment Agreement by and between the Registrant and Charles E. Harris dated August 15, 1990, incorporated by reference to Exhibit 10 (r) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
10.2		Amendment No.1 to the Employment Agreement dated as of August 15, 1990 between the Registrant and Charles E. Harris dated as of June 30, 1992, incorporated by reference to Exhibit 10.2 to the Company's Registration Statement in Form N-2 filed on October 29, 1992.
10.3		Amendment No.2 to the Employment Agreement dated as of August 15, 1990 between the Registrant and Charles E. Harris dated as of January 6, 1993, incorporated by reference to Exhibit 10.22 to the Company's Registration Statement in Form N-2 filed on December 3, 1993.
10.4	*	Amendment No.3 to the Employment Agreement dated as of August 15, 1990 between the Registrant and Charles E. Harris dated as of June 30, 1994.
10.5		Severance Compensation Agreement by and between the Registrant and Charles E. Harris dated August 15, 1990, incorporated by reference to exhibit 10 (s) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.

10.6		Employment Agreement by and between the Registrant and C. Richard Childress dated August 15, 1990, incorporated by reference to exhibit 10 (t) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
10.7		Amendment No. 1 to the Employment Agreement dated as of August 15, 1990 between the Registrant and C. Richard Childress dated as of June 30, 1992 incorporated by reference to Exhibit 10.2 to the Company's Registration Statement in Form N-2 filed on October 29, 1992.
10.8		Amendment No.2 to the Employment Agreement dated as of August 15, 1990 between the Registrant and C. Richard Childress dated as of January 6, 1993, incorporated by reference to Exhibit 10.22 to the Company's Registration Statement in Form N-2 filed on December 3, 1993.
10.9	*	Amendment No.3 to the Employment Agreement dated as of August 15, 1990 between the Registrant and C. Richard Childress dated as of June 30, 1994.
10.10		Severance Compensation Agreement by and between the Registrant

and C. Richard Childress dated August 15, 1990, incorporated by reference to Exhibit 10 (u) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.

10.11 Warrant issued by the Registrant to Charles E. Harris dated September 23, 1985 as clarified and restated on May 1, 1989, incorporated by reference to Exhibit 10 (n) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

10.12 Warrant issued by the Registrant to C. Richard Childress dated September 23, 1985 as clarified and restated on May 1, 1989, incorporated by reference to Exhibit 10 (o) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

10.13 * Stock Purchase Agreement, Standstill Agreement and Termination and Release by and among Harris & Harris Group, Inc. and American Bankers Life Assurance Company of Florida dated May 18, 1995.

10.14 * Form of Indemnification Agreement which has been established with all directors and executive officers of the Company.

10.15 * Definitive Proxy Statment for the Annual Meeting of Shareholders to be held on April 11, 1996

13 * Annual Report to shareholders for year ended December 31, 1995

24 * Consent of Arthur Andersen LLP

BY-LAWS

OF

HARRIS & HARRIS GROUP, INC.

ARTICLE I

OFFICES

SECTION 1. PRINCIPAL OFFICE. The principal office of the corporation shall be located in the City, County and State of New York.

SECTION 2. OTHER OFFICES. The corporation may have other offices and places of business, within or without the State of New York, as shall be determined by the directors.

ARTICLE II

SHAREHOLDERS

SECTION 1. PLACE OF MEETINGS. Meetings of the shareholders may be held at such place or places, within or without the State of New York, as shall be fixed by the directors and stated in the notice of the meeting.

SECTION 2. ANNUAL MEETING. The annual meeting of shareholders for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on the date selected by the Board of Directors in each calendar year.

SECTION 3. NOTICE OF ANNUAL MEETING. Notice of the annual meeting shall be given to each shareholder entitled to vote, at least ten days prior to the meeting.

SECTION 4. SPECIAL MEETINGS. Special meetings of the shareholders for any purpose or purposes may be called by the President or Secretary.

SECTION 5. NOTICE OF SPECIAL MEETING. Notice of a special meeting, stating the time, place and purpose or purposes thereof, shall be given to each shareholder entitled to vote, at least ten days prior to the meeting. The notice shall also set forth at whose direction it is being issued.

SECTION 6. QUORUM. At any meeting of the shareholders, the holders of a majority of the shares of stock then entitled to vote, shall constitute a quorum for all purposes, except as otherwise provided by law or the Certificate of Incorporation.

SECTION 7. VOTING. At each meeting of the shareholders, every holder of stock then entitled to vote may vote in person or by proxy, and, except as may be otherwise provided by the Certificate of Incorporation, shall have one vote for each share of stock registered in his name.

SECTION 8. ADJOURNED MEETINGS. Any meeting of shareholders may be adjourned to a designated time and place by a vote of a majority in interest of the shareholders present in person or by proxy and entitled to vote, even though less than a quorum is so present. No notice of such an adjourned meeting need be given, other than by announcement at the meeting, and any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 9. ACTION BY WRITTEN CONSENT OF SHAREHOLDERS. Whenever by any provision of statute or of the Certificate of Incorporation or of these By-Laws, the vote of shareholders at a meeting thereof is required or permitted to be taken in connection with any corporate action, the meeting and vote of shareholders may be dispensed with, if all the shareholders who would have been entitled to vote upon the action if such meeting were held, shall consent in writing to such corporate action being taken.

ARTICLE III

DIRECTORS

SECTION 1. NUMBER. The number of directors of the corporation shall be determined from time to time by resolutions of the directors, who shall hold office for the term of one year and until their successors are duly elected and qualify. The number of directors may be less than three when all of the shares are owned by less than three shareholders, but in such event the number of directors may not be less than the number of shareholders. Directors need not be shareholders.

SECTION 2. POWERS. The Board of Directors may adopt such rules and regulations for the conduct of its meetings, the exercise of its powers and the management of the affairs of the corporation as it may deem proper, not inconsistent with the laws of the State of New York, the Certificate of Incorporation or these By-Laws.

In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board of Directors may exercise all such powers of the corporation and do such lawful acts and things except as are by statute, the Certificate of Incorporation or these By-Laws directed or required to be exercised or done by the shareholders.

SECTION 3. MEETING, QUORUM, ACTION WITHOUT MEETING. Meetings of the Board of Directors may be held at any place, either within or outside the State of New York, provided a quorum be in attendance. Except as may be otherwise provided by the Certificate of Incorporation or by the Business Corporation Law, a majority of the directors in office shall constitute a quorum at any meeting of the Board of Directors and the vote of a majority of a quorum of directors shall constitute the act of the Board of Directors.

The Board of Directors may hold an annual meeting, without notice, immediately after the annual meeting of shareholders. Regular meetings of the Board of Directors may be established by a resolution adopted by the Board of Directors. The Chairman of the Board of Directors may call, and at the request of any two directors must call, a special meeting of the Board of Directors, three days notice of which shall be given by overnight United States Mail or by Federal Express or any other private overnight courier service, or two days notice of which shall be given personally or by telephone, telecopier or telefax (or similar communications equipment), telegram or cable, to each director.

Any one or more members of the Board of Directors or any Committee thereof may participate in a meeting of such Board of Directors or Committee by means of a conference telephone call or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, if before the meeting the Chairman of the Board of Directors or the Chairman of such Committee, as the case may be, determines that an emergency or other extraordinary circumstances exist, making telephone participation in the meeting by one or more directors appropriate. The determination by the Chairman of the Board of Directors or the Chairman of a Committee thereof, as the case may be, that an emergency or other extraordinary circumstances exist, making telephone participation in the meeting by one or more directors appropriate, shall be final and conclusive. Where authorized by the Chairman of the Board of Directors or the Chairman of a Committee thereof, as described above in this paragraph, participation by means of a conference telephone call or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time shall constitute presence in person at the meeting.

Any action required or permitted to be taken by the Board of Directors or any Committee thereof may be taken without a meeting if all members of the Board of Directors or the Committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board of Directors or Committee shall be filed with the minutes of the meetings of the Board of Directors or

Committee.

SECTION 4. VACANCIES, REMOVAL. Except as otherwise provided in the Certificate of Incorporation or in the following paragraph, vacancies occurring in the membership of the Board of Directors, from whatever cause arising (including vacancies occurring by reason of the removal of directors without cause and newly created directorships resulting from any increase in the authorized number of directors), may be filled by a majority vote of the remaining directors, though less than a quorum, or such vacancies may be filled by the shareholders.

Except where the Certificate of Incorporation contains provisions authorizing cumulative voting or the election of one or more directors by class or their election by holders of bonds, or requires all action by shareholders to be by a greater vote, any one or more [of] the directors may be removed, (a) either for or without cause, at any time, by vote of the shareholders holding a majority of the outstanding stock of the corporation entitled to vote, present in person or by proxy, at any special meeting of the shareholders or by written consent of all of the shareholders entitled to vote, or (b) for cause, by action of the Board of Directors at any regular or special meeting of the Board of Directors. A vacancy or vacancies occurring from such removal may be filled at the special meeting of shareholders or at a regular or special meeting of the Board of Directors.

SECTION 5. COMMITTEES. The Board of Directors, by resolution adopted by a majority of the entire Board of Directors, may designate from its members an Executive Committee or other committee or committees, each consisting of three or more members, with such powers and authority (to the extent permitted by law) as may be provided in said resolution.

ARTICLE IV

OFFICERS

SECTION 1. EXECUTIVE OFFICERS. The executive officers of the corporation shall be a Chairman of the Board, a President, a Treasurer and a Secretary, all of whom shall be elected annually by the Board of Directors, who shall hold office at the pleasure of the Board of Directors. No one person may serve simultaneously as both President and Secretary of the corporation, but any two or more other offices may be held simultaneously by the same person. All vacancies occurring among any of the officers shall be filled by the Board of Directors.

SECTION 2. OTHER OFFICERS. The Board of Directors may appoint such other officers and agents with such powers and duties as it shall deem necessary.

SECTION 3. THE CHAIRMAN OF THE BOARD. The Chairman of the Board of Directors shall be the chief executive officer of the corporation and, while the Board of Directors is not in session, shall have general management and control of the business and affairs of the corporation. He shall also preside at all meetings of the Board of Directors and shall have and perform such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 4. THE PRESIDENT. The President, who may but need not be a director, shall, in the absence of a Chairman of the Board, preside at all meetings of the shareholders and directors. He shall have and perform such other duties as from time to time may be assigned to him by the Board of Directors or the Chairman of the Board.

SECTION 5. THE VICE-PRESIDENT. The Vice-President, if one be elected, or if there be more than one, the senior Vice-President as determined by the Board of Directors, in the absence or disability of the President, shall exercise the powers and perform the duties of the President and each Vice-President shall exercise such other powers and perform such other duties as from time to time may be assigned to him by the Board of Directors, the Chairman of the Board, or the President.

SECTION 6. THE TREASURER. The Treasurer shall have custody of all funds, securities and evidences of indebtedness of the corporation; he shall receive and give receipts and acquittances for moneys paid in on account of the corporation, and shall pay out of the funds on hand all bills, payrolls, and other just debts of the corporation, of whatever nature, upon maturity; he shall enter regularly in books to be kept by him for that purpose, full and accurate accounts of all moneys received and paid out by him on account of the corporation, and he shall perform all other duties incident to the office of Treasurer and as may be prescribed by the Board of Directors.

SECTION 7. THE SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors and of the shareholders; he shall attend to the giving and serving of all notices to shareholders and directors or other notice required by law or by these By-Laws; he shall affix the seal of the corporation to deeds, contracts and other instruments in writing requiring a seal, when duly signed or when so ordered by the Board of Directors; he shall have charge of the certificate books and stock books and such other books and papers as the Board of Directors may direct, and he shall perform all other duties incident to the office of Secretary.

SECTION 8. SALARIES. The salaries and other compensation of all officers and employees shall be fixed by the Board of Directors, or by any committee designated from among the directors (in accordance with Article III, Section 5, of these By-Laws) to handle such compensation matters, and the fact that any officer is a director shall not preclude him from receiving a salary and other compensation as an officer, or from voting upon the resolution providing the same.

ARTICLE V

CAPITAL STOCK

SECTION 1. FORM AND EXECUTION OF CERTIFICATES. Certificates of stock shall be in such form as required by the Business Corporation Law of New York and as shall be adopted by the Board of Directors. They shall be numbered and registered in the order issued; shall be signed by the Chairman or a Vice-Chairman of the Board of Directors (if any) or by the President or Vice-President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and may be sealed with the corporate seal or a facsimile thereof. When such a certificate is countersigned by a transfer agent or registered by a registrar, the signatures of any such officers may be facsimile.

SECTION 2. TRANSFER. Transfer of shares shall be made only upon the books of the corporation by the registered holder in person or by attorney, duly authorized, and upon surrender of the certificate or certificates for such shares properly assigned for transfer.

SECTION 3. LOST OR DESTROYED CERTIFICATES. The holder of any certificate representing shares of stock of the corporation may notify the corporation of any loss, theft or destruction thereof, and the Board of Directors may thereupon, in its discretion, cause a new certificate for the same number of shares, to be issued to such holder upon satisfactory proof of such loss, theft or destruction, and the deposit of indemnity by way of bond or otherwise, in such form and amount and with such surety or sureties as the Board of Directors may require, to indemnify the corporation against any loss or liability by reason of the issuance of such new certificates.

SECTION 4. RECORD DATE. In lieu of closing the books of the corporation, the Board of Directors may fix, in advance, a date, not exceeding fifty days, nor less than ten days, as the record date for the determination of shareholders entitled to receive notice of, or to vote, at any meeting of shareholders, or to consent to any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividends, or allotment of any rights, or for the purpose of any other action.

ARTICLE VI

MISCELLANEOUS

SECTION 1. DIVIDENDS. The Board of Directors may declare dividends from time to time upon the capital stock of the corporation from the surplus or net profits available therefor.

SECTION 2. SEAL. The Board of Directors shall provide a suitable corporate seal and shall be used as authorized by the By-Laws.

SECTION 3. FISCAL YEAR. The fiscal year of the corporation shall be determined by the Board of Directors.

SECTION 4. CHECKS, NOTES, ETC. Checks, notes, drafts, bills of exchange and orders for the payment of money shall be signed or endorsed in such manner as shall be determined by the Board of Directors.

The funds of the corporation shall be deposited in such bank or trust company, and checks drawn against such funds shall be signed in such manner as may be determined from time to time by the Board of Directors.

SECTION 5. NOTICE AND WAIVER OF NOTICE. Any notice required to be given under these By-Laws may be waived by the person entitled thereto, in writing, by telecopier or telefax (or similar communications equipment), telegram, cable or radiogram, and the presence of any person at a meeting shall constitute waiver of notice thereof as to such person.

ARTICLE VII

AMENDMENTS

SECTION 1. BY SHAREHOLDERS. These By-Laws may be amended at any shareholders' meeting by vote of the shareholders holding a majority (unless the Certificate of Incorporation requires a larger vote) of the outstanding stock having voting power, present either in person or by proxy, provided notice of the amendment is included in the notice or waiver of notice of such meeting.

SECTION 2. BY DIRECTORS. The Board of Directors may also amend these By-Laws at any regular or special meeting of the Board by a majority (unless the Certificate of Incorporation requires a larger vote) vote of the entire Board, but any By-Laws so made by the Board of Directors may be altered or repealed by the shareholders.

BY-LAWS

OF

HARRIS & HARRIS GROUP, INC.

I certify that the following By-Laws, consisting of nine pages, each of which I have initialed for identification, are the By-Laws:

(1) Adopted, as contemplated by Section 601(a) of the New York Business Corporation Law, as amended, for and on behalf of the shareholders of Harris & Harris Group, Inc. (the "corporation"), by a written action signed by the corporation's sole incorporator and dated as of December 1, 1981;

(2) Approved and adopted by the corporation's Board of Directors by a unanimous written consent in lieu of an organizational meeting dated as of December 1, 1981; and

(3) As amended by the corporation's Board of Directors (a) at its March 23, 1984, special meeting; (b) by a unanimous written consent of directors dated as of April 13, 1984; (c) at its April 30, 1984, special meeting; (d) at its July 9, 1984, meeting; (e) at its October 19, 1984, meeting; (f) at its July 11, 1985, meeting; (g) at its November 17, 1988,

meeting; (h) at its April 25, 1989, meeting; (i) by a unanimous written consent of directors dated June 9, 1992; and (j) by a unanimous written consent of directors dated October 19, 1992.

/s/_____
Jay Middleton Tannon, Secretary

Dated: July 14, 1992

BY-LAWS

OF

HARRIS & HARRIS GROUP, INC.

ARTICLE I

OFFICES

SECTION 1. PRINCIPAL OFFICE. The principal office of the corporation shall be located in the City, County and State of New York.

SECTION 2. OTHER OFFICES. The corporation may have other offices and places of business, within or without the State of New York, as shall be determined by the directors.

ARTICLE II

SHAREHOLDERS

SECTION 1. PLACE OF MEETINGS. Meetings of the shareholders may be held at such place or places, within or without the State of New York, as shall be fixed by the directors and stated in the notice of the meeting.

SECTION 2. ANNUAL MEETING. The annual meeting of shareholders for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on the date selected by the Board of Directors in each calendar year.

SECTION 3. NOTICE OF ANNUAL MEETING. Notice of the annual meeting shall be given to each shareholder entitled to vote, at least ten days prior to the meeting.

SECTION 4. SPECIAL MEETINGS. Special meetings of the shareholders for any purpose or purposes may be called by the President or Secretary.

SECTION 5. NOTICE OF SPECIAL MEETING. Notice of a special meeting, stating the time, place and purpose or purposes thereof, shall be given to each shareholder entitled to vote, at least ten days prior to the meeting. The notice shall also set forth at whose direction it is being issued.

SECTION 6. QUORUM. At any meeting of the shareholders, the holders of a majority of the shares of stock then entitled to vote, shall constitute a quorum for all purposes, except as otherwise provided by law or the Certificate of Incorporation.

SECTION 7. VOTING. At each meeting of the shareholders, every holder of stock then entitled to vote may vote in person or by proxy, and, except as may be otherwise provided by the Certificate of Incorporation, shall have one vote for each share of stock registered in his name.

SECTION 8. ADJOURNED MEETINGS. Any meeting of shareholders may be adjourned to a designated time and place by a vote of a majority in interest of the shareholders present in person or by proxy and entitled to vote, even though less than a quorum is so present. No notice of such an adjourned meeting need be given, other than by announcement at the meeting, and any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 9. ACTION BY WRITTEN CONSENT OF SHAREHOLDERS. Whenever by any provision of statute or of the Certificate of Incorporation or of these By-Laws, the vote of shareholders at a meeting thereof is required or permitted to be taken in connection with any corporate action, the meeting and vote of shareholders may be dispensed with, if all the shareholders who would have been entitled to vote upon the action if such meeting were held, shall consent in writing to such corporate action being taken.

ARTICLE III

DIRECTORS

SECTION 1. NUMBER. The number of directors of the corporation shall be determined from time to time by resolutions of the directors, who shall hold office for the term of one year and until their successors are duly elected and qualify. The number of directors may be less than three when all of the shares are owned by less than three shareholders, but in such event the number of directors may not be less than the number of shareholders. Directors need not be shareholders.

SECTION 2. POWERS. The Board of Directors may adopt such rules and regulations for the conduct of its meetings, the exercise of its powers and the management of the affairs of the corporation as it may deem proper, not inconsistent with the laws of the State of New York, the Certificate of Incorporation or these By-Laws.

In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board of Directors may exercise all such powers of the corporation and do such lawful acts and things except as are by statute, the Certificate of Incorporation or these By-Laws directed or required to be exercised or done by the shareholders.

SECTION 3. MEETING, QUORUM, ACTION WITHOUT MEETING. Meetings of the Board of Directors may be held at any place, either within or outside the State of New York, provided a quorum be in attendance. Except as may be otherwise provided by the Certificate of Incorporation or by the Business Corporation Law, a majority of the directors in office shall constitute a quorum at any meeting of the Board of Directors and the vote of a majority of a quorum of directors shall constitute the act of the Board of Directors.

The Board of Directors may hold an annual meeting, without notice, immediately after the annual meeting of shareholders. Regular meetings of the Board of Directors may be established by a resolution adopted by the Board of Directors. The Chairman of the Board of Directors may call, and at the request of any two directors must call, a special meeting of the Board of Directors, three days notice of which shall be given by overnight United States Mail or by Federal Express or any other private overnight courier service, or two days notice of which shall be given personally or by telephone, telecopier or telefax (or similar communications equipment), telegram or cable, to each director.

Any one or more members of the Board of Directors or any Committee thereof may participate in a meeting of such Board of Directors or Committee by means of a conference telephone call or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, if before the meeting the Chairman of the Board of Directors or the Chairman of such Committee, as the case may be, determines that an emergency or other extraordinary circumstances exist, making telephone participation in the meeting by one or more directors appropriate. The determination by the Chairman of the Board of Directors or the Chairman of a Committee thereof, as the case may be, that an emergency or other extraordinary circumstances exist, making telephone participation in the meeting by one or more directors appropriate, shall be final and conclusive. Where authorized by the Chairman of the Board of Directors or the Chairman of a Committee thereof, as described above in this paragraph, participation by means of a conference telephone call or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time shall constitute presence in person at the meeting.

Any action required or permitted to be taken by the Board of Directors or any Committee thereof may be taken without a meeting if all members of the Board of Directors or the Committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board of Directors or Committee shall be filed with the minutes of the meetings of the Board of Directors or

Committee.

SECTION 4. VACANCIES, REMOVAL. Except as otherwise provided in the Certificate of Incorporation or in the following paragraph, vacancies occurring in the membership of the Board of Directors, from whatever cause arising (including vacancies occurring by reason of the removal of directors without cause and newly created directorships resulting from any increase in the authorized number of directors), may be filled by a majority vote of the remaining directors, though less than a quorum, or such vacancies may be filled by the shareholders.

Except where the Certificate of Incorporation contains provisions authorizing cumulative voting or the election of one or more directors by class or their election by holders of bonds, or requires all action by shareholders to be by a greater vote, any one or more [of] the directors may be removed, (a) either for or without cause, at any time, by vote of the shareholders holding a majority of the outstanding stock of the corporation entitled to vote, present in person or by proxy, at any special meeting of the shareholders or by written consent of all of the shareholders entitled to vote, or (b) for cause, by action of the Board of Directors at any regular or special meeting of the Board of Directors. A vacancy or vacancies occurring from such removal may be filled at the special meeting of shareholders or at a regular or special meeting of the Board of Directors.

SECTION 5. COMMITTEES. The Board of Directors, by resolution adopted by a majority of the entire Board of Directors, may designate from its members an Executive Committee or other committee or committees, each consisting of three or more members, with such powers and authority (to the extent permitted by law) as may be provided in said resolution.

ARTICLE IV

OFFICERS

SECTION 1. EXECUTIVE OFFICERS. The executive officers of the corporation shall be a Chairman of the Board, a President, a Treasurer and a Secretary, all of whom shall be elected annually by the Board of Directors, who shall hold office at the pleasure of the Board of Directors. No one person may serve simultaneously as both President and Secretary of the corporation, but any two or more other offices may be held simultaneously by the same person. All vacancies occurring among any of the officers shall be filled by the Board of Directors.

SECTION 2. OTHER OFFICERS. The Board of Directors may appoint such other officers and agents with such powers and duties as it shall deem necessary.

SECTION 3. THE CHAIRMAN OF THE BOARD. The Chairman of the Board of Directors shall be the chief executive officer of the corporation and, while the Board of Directors is not in session, shall have general management and control of the business and affairs of the corporation. He shall also preside at all meetings of the Board of Directors and shall have and perform such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 4. THE PRESIDENT. The President, who may but need not be a director, shall, in the absence of a Chairman of the Board, preside at all meetings of the shareholders and directors. He shall have and perform such other duties as from time to time may be assigned to him by the Board of Directors or the Chairman of the Board.

SECTION 5. THE VICE-PRESIDENT. The Vice-President, if one be elected, or if there be more than one, the senior Vice-President as determined by the Board of Directors, in the absence or disability of the President, shall exercise the powers and perform the duties of the President and each Vice-President shall exercise such other powers and perform such other duties as from time to time may be assigned to him by the Board of Directors, the Chairman of the Board, or the President.

SECTION 6. THE TREASURER. The Treasurer shall have custody of all funds, securities and evidences of indebtedness of the corporation; he shall receive and give receipts and acquittances for moneys paid in on account of the corporation, and shall pay out of the funds on hand all bills, payrolls, and other just debts of the corporation, of whatever nature, upon maturity; he shall enter regularly in books to be kept by him for that purpose, full and accurate accounts of all moneys received and paid out by him on account of the corporation, and he shall perform all other duties incident to the office of Treasurer and as may be prescribed by the Board of Directors.

SECTION 7. THE SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors and of the shareholders; he shall attend to the giving and serving of all notices to shareholders and directors or other notice required by law or by these By-Laws; he shall affix the seal of the corporation to deeds, contracts and other instruments in writing requiring a seal, when duly signed or when so ordered by the Board of Directors; he shall have charge of the certificate books and stock books and such other books and papers as the Board of Directors may direct, and he shall perform all other duties incident to the office of Secretary.

SECTION 8. SALARIES. The salaries and other compensation of all officers and employees shall be fixed by the Board of Directors, or by any committee designated from among the directors (in accordance with Article III, Section 5, of these By-Laws) to handle such compensation matters, and the fact that any officer is a director shall not preclude him from receiving a salary and other compensation as an officer, or from voting upon the resolution providing the same.

ARTICLE V

CAPITAL STOCK

SECTION 1. FORM AND EXECUTION OF CERTIFICATES. Certificates of stock shall be in such form as required by the Business Corporation Law of New York and as shall be adopted by the Board of Directors. They shall be numbered and registered in the order issued; shall be signed by the Chairman or a Vice-Chairman of the Board of Directors (if any) or by the President or Vice-President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and may be sealed with the corporate seal or a facsimile thereof. When such a certificate is countersigned by a transfer agent or registered by a registrar, the signatures of any such officers may be facsimile.

SECTION 2. TRANSFER. Transfer of shares shall be made only upon the books of the corporation by the registered holder in person or by attorney, duly authorized, and upon surrender of the certificate or certificates for such shares properly assigned for transfer.

SECTION 3. LOST OR DESTROYED CERTIFICATES. The holder of any certificate representing shares of stock of the corporation may notify the corporation of any loss, theft or destruction thereof, and the Board of Directors may thereupon, in its discretion, cause a new certificate for the same number of shares, to be issued to such holder upon satisfactory proof of such loss, theft or destruction, and the deposit of indemnity by way of bond or otherwise, in such form and amount and with such surety or sureties as the Board of Directors may require, to indemnify the corporation against any loss or liability by reason of the issuance of such new certificates.

SECTION 4. RECORD DATE. In lieu of closing the books of the corporation, the Board of Directors may fix, in advance, a date, not exceeding fifty days, nor less than ten days, as the record date for the determination of shareholders entitled to receive notice of, or to vote, at any meeting of shareholders, or to consent to any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividends, or allotment of any rights, or for the purpose of any other action.

ARTICLE VI

MISCELLANEOUS

SECTION 1. DIVIDENDS. The Board of Directors may declare dividends from time to time upon the capital stock of the corporation from the surplus or net profits available therefor.

SECTION 2. SEAL. The Board of Directors shall provide a suitable corporate seal and shall be used as authorized by the By-Laws.

SECTION 3. FISCAL YEAR. The fiscal year of the corporation shall be determined by the Board of Directors.

SECTION 4. CHECKS, NOTES, ETC. Checks, notes, drafts, bills of exchange and orders for the payment of money shall be signed or endorsed in such manner as shall be determined by the Board of Directors.

The funds of the corporation shall be deposited in such bank or trust company, and checks drawn against such funds shall be signed in such manner as may be determined from time to time by the Board of Directors.

SECTION 5. NOTICE AND WAIVER OF NOTICE. Any notice required to be given under these By-Laws may be waived by the person entitled thereto, in writing, by telecopier or telefax (or similar communications equipment), telegram, cable or radiogram, and the presence of any person at a meeting shall constitute waiver of notice thereof as to such person.

ARTICLE VII

AMENDMENTS

SECTION 1. BY SHAREHOLDERS. These By-Laws may be amended at any shareholders' meeting by vote of the shareholders holding a majority (unless the Certificate of Incorporation requires a larger vote) of the outstanding stock having voting power, present either in person or by proxy, provided notice of the amendment is included in the notice or waiver of notice of such meeting.

SECTION 2. BY DIRECTORS. The Board of Directors may also amend these By-Laws at any regular or special meeting of the Board by a majority (unless the Certificate of Incorporation requires a larger vote) vote of the entire Board, but any By-Laws so made by the Board of Directors may be altered or repealed by the shareholders.

BY-LAWS

OF

HARRIS & HARRIS GROUP, INC.

I certify that the following By-Laws, consisting of nine pages, each of which I have initialed for identification, are the By-Laws:

(1) Adopted, as contemplated by Section 601(a) of the New York Business Corporation Law, as amended, for and on behalf of the shareholders of Harris & Harris Group, Inc. (the "corporation"), by a written action signed by the corporation's sole incorporator and dated as of December 1, 1981;

(2) Approved and adopted by the corporation's Board of Directors by a unanimous written consent in lieu of an organizational meeting dated as of December 1, 1981; and

(3) As amended by the corporation's Board of Directors (a) at its March 23, 1984, special meeting; (b) by a unanimous written consent of directors dated as of April 13, 1984; (c) at its April 30, 1984, special meeting; (d) at its July 9, 1984, meeting; (e) at its October 19, 1984, meeting; (f) at its July 11, 1985, meeting; (g) at its November 17, 1988,

meeting; (h) at its April 25, 1989, meeting; (i) by a unanimous written consent of directors dated June 9, 1992; and (j) by a unanimous written consent of directors dated October 19, 1992.

/s/_____
Jay Middleton Tannon, Secretary

Dated: July 14, 1992

INDEMNIFICATION AGREEMENT

This is an Indemnification Agreement dated as of December 15, 1992 between HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and (the "Indemnitee").

1. Recitals. The Indemnitee is an officer/director of the Company. Article 8 of the Company's Certificate of Incorporation, as currently amended, obligates the Company to indemnify its directors and officers to the fullest extent permitted by the New York Business Corporation Law, as amended (the "NYBCL"), subject to the limitations imposed by the Investment Company Act of 1940 and the Rules and Regulations adopted thereunder. In accordance with the NYBCL and in consideration of the Indemnitee's continuing services to the Company, the Company and the Indemnitee desire to enter into this Agreement.

2. Indemnitee's Services. The Indemnitee shall diligently administer the Company's affairs in the position or positions described in paragraph 1. Subject to any obligation imposed by contract or by operation of law, (a) the Indemnitee may at any time and for any reason resign from such position or positions, and (b) the Company may at any time and for any reason (or no reason) terminate the Indemnitee's employment in such position or positions.

3. Indemnification. The Company shall indemnify the Indemnitee and hold the Indemnitee harmless against any loss or liability related to or arising from the Indemnitee's service as a director, officer, employee, or agent of the Company, or of any subsidiary or affiliate of the Company (a "Subsidiary") or in any capacity whether as a director, officer, employee, agent or in any other capacity, for any other corporation, investee, partnership, joint venture, trust, employee benefit plan or other enterprise on behalf of the Company or its subsidiaries ("Entity"), upon the following terms and conditions:

(a) The Company shall, to the fullest extent permitted by the NYBCL as now in effect--and to such greater or, with respect to acts or omissions occurring thereafter, to such lesser extent as the NYBCL (or of any successor codification of the New York corporation laws) may hereafter from time to time permit -- hold the Indemnitee harmless from and indemnify the Indemnitee against (1) all judgments rendered, fines levied, and other assessments (including amounts paid in settlement of any claims, if approved by the Company), plus (2) all reasonable costs and expenses (including, without limitation, attorneys fees, retainers, court costs, transcript costs, experts' fees, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, and delivery service fees), incurred in connection with the defense of any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative (an "Action"), related to or arising from (1) any actual or alleged act or omission of the Indemnitee at any time as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or (2) the Indemnitee's past, present, or future status as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity.

(b) Subject to a determination by a majority of the disinterested directors or a committee thereof who are not a party to such Action or by independent legal counsel in a written opinion that the Indemnitee is likely to have satisfied the standard for indemnification under the NYBCL and the Investment

Company Act of 1940, upon presentation from time to time of such invoices, statements for services rendered, or other similar documentation as the Company may reasonably request, the Company shall advance to or reimburse the Indemnitee for all reasonable costs and expenses incurred of the types specified in paragraph 3(a) in the defense of any threatened, pending, or completed Action, as and when such costs are incurred.

(c) The Company shall indemnify the Indemnitee under paragraph 3(a) only as authorized in a specific case upon a determination that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the NYBCL or in any other applicable provision of New York law. Such determination shall be made, as the Indemnitee chooses, either (1) by a majority vote of a quorum of the Company's disinterested directors who are not parties to such Action, or (2) by independent legal counsel in a written opinion. The Company shall pay the fees and expenses of any independent legal counsel chosen by the Company to make the determination contemplated by this paragraph 3(c).

(d) The indemnification provided by this Agreement shall apply only to (1) actual or alleged acts or omissions that occur during the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, and (2) actual or threatened Actions in which the Indemnitee is joined or named as a party, but which relate to or arise from alleged acts or omissions that occurred before the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or which relate to acts or omissions alleged against any former directors, officers, employees, or agents of the Company or of any Subsidiary or Entity.

(e) Nothing in this Agreement shall be deemed or construed to create any liability of the Company (1) to former directors, officers, employees, or agents or their predecessors other than Indemnitee, or to any other person not a party to this Agreement, or (2) exceeding the liability that the Company may lawfully incur in accordance with applicable New York law.

4. Conduct of Litigation.

(a) If any Action is made, brought, or threatened against the Indemnitee for which the Indemnitee may be indemnified under this Agreement, the Indemnitee shall, to the extent not inconsistent with any private insurance coverage obtained by the Company:

(l) Permit the Company to conduct the Indemnitee's defense of the Action at the Company's expense and with the use of counsel selected by the Company; or

(2) Retain counsel acceptable to the Indemnitee and the Company to defend or counsel the Indemnitee with respect to the Action, and permit the Company to monitor and direct the Indemnitee's defense.

(b) The Company shall at all times have the option to undertake the Indemnitee's defense of any Action for which the Indemnitee may be indemnified under this Agreement. If the Company elects to conduct the Indemnitee's defense, the Indemnitee shall cooperate fully with the Company in the defense of the Action. If the Company elects to conduct the Indemnitee's defense after the Indemnitee proceeds under paragraph 4(a)(2), the Company shall advance or reimburse the Indemnitee for the reasonable costs, including attorneys' fees, incurred by the Indemnitee in enabling the Company to undertake the Indemnitee's defense.

5. Reimbursement of Expenses. As required by the NYBCL,

if the Company makes any payment to the Indemnitee under this Agreement, and if it is ultimately determined that the Indemnitee was not entitled to be indemnified by the Company under the NYBCL or the Investment Company Act of 1940, the Indemnitee shall promptly repay the Company for all amounts paid to the Indemnitee under this Agreement which exceed the indemnification to which the Indemnitee is lawfully entitled.

6. Enforcement of Agreement. If the Indemnitee makes a claim for indemnification under this Agreement and the Company refuses to indemnify the Indemnitee, and if the Indemnitee then prevails in an action or proceeding brought to enforce this Agreement, the Company shall pay all reasonable costs and expenses (including attorneys' fees) incurred by the Indemnitee in connection with the action or proceeding in addition to any other indemnification required under this Agreement.

7. Notice of Claims. If the Indemnitee receives a complaint, claim, or other notice of any loss, claim, damage, or liability giving rise to a claim for indemnification under this Agreement, the Indemnitee shall promptly notify the Company of the complaint, claim, or other notice. Any failure to notify the Company, however, shall not relieve the Company from any liability under this Agreement unless the Company (a) is materially prejudiced by the failure (such as, for example, where the failure results in the exclusion or denial of the Company's otherwise available insurance coverage), and (b) had no actual knowledge of the complaint, claim, or other notice. In no event shall the Company be obligated to indemnify the Indemnitee for any settlement of any Action effected without the Company's prior consent.

8. Termination.

(a) This Agreement shall terminate (1) upon termination of the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or (2) upon the Company's written notice to the Indemnitee that, in the reasonable opinion of the Company, the Indemnitee has not complied with paragraph 4 of this Agreement. The Company shall not issue any such notice merely because it disagrees with a business judgment or judgments of the Indemnitee.

(b) The termination of this Agreement shall not:

(l) Terminate the Company's liability to the Indemnitee for (A) Actions against the Indemnitee related to or arising from acts or omissions occurring or alleged to have occurred before termination of this Agreement, or (B) Actions that name or join the Indemnitee as a party, but relate to or arise from acts or omissions alleged to have occurred before the Indemnitee's service as a director, officer, employee, or agent, or acts or omissions alleged against former directors, officers, employees, or agents.

(2) Render the terms and conditions of this Agreement inapplicable to any Actions subject to paragraph 8(b)(1).

9. Subrogation. If the Company makes any payment to the Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the Indemnitee's rights of recovery and the Indemnitee shall execute any documents and take any actions necessary to secure such rights (including execution of any documents necessary to enable the Company to bring suit to enforce such rights).

10. Insurance Reimbursements. The Company shall not be required to make any payment of amounts otherwise indemnifiable under this Agreement if and to the extent that the Indemnitee has otherwise actually received such payment under any insurance

policy, contract, agreement, or otherwise.

11. Notices. Any notice or other communication required or permitted under this Agreement shall be deemed given when hand-delivered or sent by registered United States mail, postage prepaid and return-receipt requested, to the intended recipient at the address set forth below or at such other address as the recipient shall hereafter furnish the sender in writing:

If to the Indemnitee: (name and address)

If to the Company: Harris & Harris Group, Inc.
One Rockefeller Plaza
Rockefeller Center
New York, New York 10020
Attention: The Chairman of the Board

12. Governing Law. The laws of New York and to the extent inconsistent therewith, the Investment Company Act of 1940, shall govern the validity, interpretation, and construction of this Agreement. Nothing in this Agreement shall require any unlawful action or inaction by any party.

13. Modification. No modification of this Agreement shall be binding unless executed in writing by the Indemnitee and the Company.

14. Headings. All "paragraph" references in this Agreement refer to numbered paragraphs of this Agreement. Paragraph headings are not part of this Agreement, but are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or any provision in it.

15. Sole Benefit. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any person other than the Company, its successors and assigns, and the Indemnitee and the Indemnitee's personal representatives, heirs, or devisees, any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provisions contained herein. The assumption of obligations and statements of responsibilities and all conditions and provisions of this Agreement are for the sole benefit of the Company, its successors and assigns, and the Indemnitee and the Indemnitee's personal representatives, heirs, or devisees.

16. Effect of Prior Agreements. This Agreement contains the entire understanding between the Company and the Indemnitee with respect to the subject matter hereof and supersedes any prior indemnification agreement between the Company or any predecessor of the Company and the Indemnitee.

IN WITNESS WHEREOF, the Indemnitee and the Company have executed several originals of this Agreement as of December 15, 1992 but actually on the dates set forth below.

THE "INDEMNITEE" HARRIS & HARRIS GROUP, INC.

_____ By:_____

Name:______________________ Title:__________________________

Date:_______________________ Date:___________________________

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INDEMNIFICATION AGREEMENT

This is an Indemnification Agreement dated as of December 15, 1992 between HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and (the "Indemnitee").

1. Recitals. The Indemnitee is an officer/director of the Company. Article 8 of the Company's Certificate of Incorporation, as currently amended, obligates the Company to indemnify its directors and officers to the fullest extent permitted by the New York Business Corporation Law, as amended (the "NYBCL"), subject to the limitations imposed by the Investment Company Act of 1940 and the Rules and Regulations adopted thereunder. In accordance with the NYBCL and in consideration of the Indemnitee's continuing services to the Company, the Company and the Indemnitee desire to enter into this Agreement.

2. Indemnitee's Services. The Indemnitee shall diligently administer the Company's affairs in the position or positions described in paragraph 1. Subject to any obligation imposed by contract or by operation of law, (a) the Indemnitee may at any time and for any reason resign from such position or positions, and (b) the Company may at any time and for any reason (or no reason) terminate the Indemnitee's employment in such position or positions.

3. Indemnification. The Company shall indemnify the Indemnitee and hold the Indemnitee harmless against any loss or liability related to or arising from the Indemnitee's service as a director, officer, employee, or agent of the Company, or of any subsidiary or affiliate of the Company (a "Subsidiary") or in any capacity whether as a director, officer, employee, agent or in any other capacity, for any other corporation, investee, partnership, joint venture, trust, employee benefit plan or other enterprise on behalf of the Company or its subsidiaries ("Entity"), upon the following terms and conditions:

(a) The Company shall, to the fullest extent permitted by the NYBCL as now in effect--and to such greater or, with respect to acts or omissions occurring thereafter, to such lesser extent as the NYBCL (or of any successor codification of the New York corporation laws) may hereafter from time to time permit -- hold the Indemnitee harmless from and indemnify the Indemnitee against (1) all judgments rendered, fines levied, and other assessments (including amounts paid in settlement of any claims, if approved by the Company), plus (2) all reasonable costs and expenses (including, without limitation, attorneys fees, retainers, court costs, transcript costs, experts' fees, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, and delivery service fees), incurred in connection with the defense of any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative (an "Action"), related to or arising from (1) any actual or alleged act or omission of the Indemnitee at any time as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or (2) the Indemnitee's past, present, or future status as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity.

(b) Subject to a determination by a majority of the disinterested directors or a committee thereof who are not a party to such Action or by independent legal counsel in a written opinion that the Indemnitee is likely to have satisfied the standard for indemnification under the NYBCL and the Investment

Company Act of 1940, upon presentation from time to time of such invoices, statements for services rendered, or other similar documentation as the Company may reasonably request, the Company shall advance to or reimburse the Indemnitee for all reasonable costs and expenses incurred of the types specified in paragraph 3(a) in the defense of any threatened, pending, or completed Action, as and when such costs are incurred.

(c) The Company shall indemnify the Indemnitee under paragraph 3(a) only as authorized in a specific case upon a determination that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the NYBCL or in any other applicable provision of New York law. Such determination shall be made, as the Indemnitee chooses, either (1) by a majority vote of a quorum of the Company's disinterested directors who are not parties to such Action, or (2) by independent legal counsel in a written opinion. The Company shall pay the fees and expenses of any independent legal counsel chosen by the Company to make the determination contemplated by this paragraph 3(c).

(d) The indemnification provided by this Agreement shall apply only to (1) actual or alleged acts or omissions that occur during the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, and (2) actual or threatened Actions in which the Indemnitee is joined or named as a party, but which relate to or arise from alleged acts or omissions that occurred before the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or which relate to acts or omissions alleged against any former directors, officers, employees, or agents of the Company or of any Subsidiary or Entity.

(e) Nothing in this Agreement shall be deemed or construed to create any liability of the Company (1) to former directors, officers, employees, or agents or their predecessors other than Indemnitee, or to any other person not a party to this Agreement, or (2) exceeding the liability that the Company may lawfully incur in accordance with applicable New York law.

4. Conduct of Litigation.

(a) If any Action is made, brought, or threatened against the Indemnitee for which the Indemnitee may be indemnified under this Agreement, the Indemnitee shall, to the extent not inconsistent with any private insurance coverage obtained by the Company:

(l) Permit the Company to conduct the Indemnitee's defense of the Action at the Company's expense and with the use of counsel selected by the Company; or

(2) Retain counsel acceptable to the Indemnitee and the Company to defend or counsel the Indemnitee with respect to the Action, and permit the Company to monitor and direct the Indemnitee's defense.

(b) The Company shall at all times have the option to undertake the Indemnitee's defense of any Action for which the Indemnitee may be indemnified under this Agreement. If the Company elects to conduct the Indemnitee's defense, the Indemnitee shall cooperate fully with the Company in the defense of the Action. If the Company elects to conduct the Indemnitee's defense after the Indemnitee proceeds under paragraph 4(a)(2), the Company shall advance or reimburse the Indemnitee for the reasonable costs, including attorneys' fees, incurred by the Indemnitee in enabling the Company to undertake the Indemnitee's defense.

5. Reimbursement of Expenses. As required by the NYBCL,

if the Company makes any payment to the Indemnitee under this Agreement, and if it is ultimately determined that the Indemnitee was not entitled to be indemnified by the Company under the NYBCL or the Investment Company Act of 1940, the Indemnitee shall promptly repay the Company for all amounts paid to the Indemnitee under this Agreement which exceed the indemnification to which the Indemnitee is lawfully entitled.

6. Enforcement of Agreement. If the Indemnitee makes a claim for indemnification under this Agreement and the Company refuses to indemnify the Indemnitee, and if the Indemnitee then prevails in an action or proceeding brought to enforce this Agreement, the Company shall pay all reasonable costs and expenses (including attorneys' fees) incurred by the Indemnitee in connection with the action or proceeding in addition to any other indemnification required under this Agreement.

7. Notice of Claims. If the Indemnitee receives a complaint, claim, or other notice of any loss, claim, damage, or liability giving rise to a claim for indemnification under this Agreement, the Indemnitee shall promptly notify the Company of the complaint, claim, or other notice. Any failure to notify the Company, however, shall not relieve the Company from any liability under this Agreement unless the Company (a) is materially prejudiced by the failure (such as, for example, where the failure results in the exclusion or denial of the Company's otherwise available insurance coverage), and (b) had no actual knowledge of the complaint, claim, or other notice. In no event shall the Company be obligated to indemnify the Indemnitee for any settlement of any Action effected without the Company's prior consent.

8. Termination.

(a) This Agreement shall terminate (1) upon termination of the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or (2) upon the Company's written notice to the Indemnitee that, in the reasonable opinion of the Company, the Indemnitee has not complied with paragraph 4 of this Agreement. The Company shall not issue any such notice merely because it disagrees with a business judgment or judgments of the Indemnitee.

(b) The termination of this Agreement shall not:

(l) Terminate the Company's liability to the Indemnitee for (A) Actions against the Indemnitee related to or arising from acts or omissions occurring or alleged to have occurred before termination of this Agreement, or (B) Actions that name or join the Indemnitee as a party, but relate to or arise from acts or omissions alleged to have occurred before the Indemnitee's service as a director, officer, employee, or agent, or acts or omissions alleged against former directors, officers, employees, or agents.

(2) Render the terms and conditions of this Agreement inapplicable to any Actions subject to paragraph 8(b)(1).

9. Subrogation. If the Company makes any payment to the Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the Indemnitee's rights of recovery and the Indemnitee shall execute any documents and take any actions necessary to secure such rights (including execution of any documents necessary to enable the Company to bring suit to enforce such rights).

10. Insurance Reimbursements. The Company shall not be required to make any payment of amounts otherwise indemnifiable under this Agreement if and to the extent that the Indemnitee has otherwise actually received such payment under any insurance

policy, contract, agreement, or otherwise.

11. Notices. Any notice or other communication required or permitted under this Agreement shall be deemed given when hand-delivered or sent by registered United States mail, postage prepaid and return-receipt requested, to the intended recipient at the address set forth below or at such other address as the recipient shall hereafter furnish the sender in writing:

If to the Indemnitee: (name and address)

If to the Company: Harris & Harris Group, Inc.
One Rockefeller Plaza
Rockefeller Center
New York, New York 10020
Attention: The Chairman of the Board

12. Governing Law. The laws of New York and to the extent inconsistent therewith, the Investment Company Act of 1940, shall govern the validity, interpretation, and construction of this Agreement. Nothing in this Agreement shall require any unlawful action or inaction by any party.

13. Modification. No modification of this Agreement shall be binding unless executed in writing by the Indemnitee and the Company.

14. Headings. All "paragraph" references in this Agreement refer to numbered paragraphs of this Agreement. Paragraph headings are not part of this Agreement, but are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or any provision in it.

15. Sole Benefit. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any person other than the Company, its successors and assigns, and the Indemnitee and the Indemnitee's personal representatives, heirs, or devisees, any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provisions contained herein. The assumption of obligations and statements of responsibilities and all conditions and provisions of this Agreement are for the sole benefit of the Company, its successors and assigns, and the Indemnitee and the Indemnitee's personal representatives, heirs, or devisees.

16. Effect of Prior Agreements. This Agreement contains the entire understanding between the Company and the Indemnitee with respect to the subject matter hereof and supersedes any prior indemnification agreement between the Company or any predecessor of the Company and the Indemnitee.

IN WITNESS WHEREOF, the Indemnitee and the Company have executed several originals of this Agreement as of December 15, 1992 but actually on the dates set forth below.

THE "INDEMNITEE" HARRIS & HARRIS GROUP, INC.

_____ By:_____

Name:______________________ Title:__________________________

Date:_______________________ Date:___________________________

STOCK PURCHASE AGREEMENT

by and among

HARRIS & HARRIS GROUP, INC.

and

AMERICAN BANKERS LIFE ASSURANCE
COMPANY OF FLORIDA

and

AMERICAN BANKERS INSURANCE
COMPANY OF FLORIDA

Dated as of May 18, 1995

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STOCK PURCHASE AGREEMENT

dated as of May 18, 1995

by and between

HARRIS & HARRIS GROUP, INC.

and

AMERICAN BANKERS LIFE ASSURANCE COMPANY
OF FLORIDA

and

AMERICAN BANKERS INSURANCE COMPANY
OF FLORIDA

STOCK PURCHASE AGREEMENT (the "Agreement"), dated as of May 18, 1995, by and among HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA ("ABLACOF") and AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA ("ABIC"; ABLACOF AND ABIC being referred to individually or collectively as the context requires as "ABLAC").

The Company and ABLACOF are parties to a Note and Warrant Purchase Agreement, dated as of August 17, 1994 (the "Purchase Agreement"). Pursuant to a Termination and Release Agreement of even date herewith, the Company and ABLACOF have agreed to terminate the Purchase Agreement. The Company and ABLAC wish to provide for the purchase of 1,075,269 shares (the "Shares") of common stock, par value $.01 per share, of the Company (the "Common Stock"), by ABLAC for a purchase price of $5,000,000.85 (the "Purchase Price"). Certain capitalized terms used in this Agreement are defined in Section 6 hereof.

Concurrently with the execution and delivery of this Agreement, the Company and ABLAC are entering into a Standstill Agreement whereby ABLAC is agreeing to certain restrictions with respect to the acquisition, disposition and voting of Voting Stock (the "Standstill Agreement").

The Company and ABLAC hereby agree as follows:

1. Sale and Purchase of the Shares.

1.1 Authorization of the Shares. Prior to the date hereof, the Company has authorized the issuance and sale of the Shares.

1.2 Sale and Purchase of the Shares. Subject to

the terms and conditions of this Agreement, and in reliance upon the representations and warranties contained herein, at the Closing (as hereinafter defined), the Company is issuing, selling and delivering to ABLAC, and ABLAC is purchasing from the Company, the Shares, for the Purchase Price.

2. Closing

2.1 Closing. The Closing of the transaction provided for in Section 1.2 hereof (the "Closing") is taking place at the offices of Skadden, Arps, Slate, Meagher & Flom, 919 Third Avenue, New York, New York 10022, at 10:00 a.m., New York City time, on the date hereof. The date of the Closing is referred to herein as the "Closing Date."

2.2 Deliveries at the Closing. At the Closing, the Company is delivering to ABLAC a certificate or certificates for the Shares, registered in the name of ABLAC against payment by ABLAC to the Company of Five Million Dollars ($5,000,000) by wire transfer of immediately available funds.

3. Representations and Warranties of the Company. The Company represents and warrants that:

3.1 Organization, Standing, etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted, to enter into this Agreement, to issue and sell the Shares and to carry out the terms of this Agreement.

3.2 SEC Reports and Financial Statements. The Company has heretofore made available to ABLAC complete and correct copies of all forms, reports and documents required to be filed by it since January 1, 1993 under the Securities Act or the Exchange Act (as such documents have been amended since the time of their filing, collectively, the "Company SEC Documents"). The Company SEC Documents, including without limitation, any financial statements or schedules included therein, at the time filed, (a) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (b) complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act, as the case may be. The consolidated financial statements of the Company included in the Company SEC Documents, at the time filed, complied as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited statements included in the Company SEC Documents, as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of the unaudited statements, to normal, recurring audit adjustments) in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended.

3.3 Authorization of the Shares. The execution, delivery and performance by the Company of this Agreement and the issuance and sale of the Shares hereunder have been duly authorized by all requisite corporate action on the part of the Company and will not conflict with, or result in a breach of the terms, conditions or provisions of the

Certificate of Incorporation or By-laws.

3.4 Valid and Binding Obligation. This Agreement has been duly executed and delivered by the Company and is the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms except as limited by bankruptcy and other laws affecting creditors' rights generally and by general principles of equity.

3.5 No Material Adverse Change. Except as previously disclosed to ABLAC in writing or in the Company SEC Documents, since December 31, 1994, there has not been any material adverse change in the assets, business or financial condition of the Company and its Subsidiaries taken as a whole (a "Material Adverse Change").

3.6 Litigation, etc. There is no action, proceeding or investigation pending or, to the knowledge of the Company, threatened which questions the validity or legality of, or seeks damages in connection with, this Agreement or the transaction contemplated hereby, or any action taken or to be taken pursuant to this Agreement or the transaction contemplated hereby or which is reasonably likely to result in a Material Adverse Change.

3.7 Compliance with Other Instruments, etc. Neither the Company nor any of its Subsidiaries is in violation of any term of the Certificate of Incorporation or the By-Laws. Neither the Company nor any of its Subsidiaries is in violation of any term of any agreement or instrument to which it is a party or by which it is bound or any term of any applicable law, ordinance, rule or regulation of any governmental authority or any term of any applicable order, judgment or decree of any court, arbitrator or governmental authority, which violation is reasonably likely to result in a Material Adverse Change. The execution, delivery and performance by the Company of this Agreement will not result in any such violation of, or be in conflict with or constitute a default under, any such term or result in the creation of (or impose any obligation on the Company or any of its Subsidiaries to create) any lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to any such term, except for any such conflict or default which is not reasonably likely to result in a Material Adverse Change.

3.8 Governmental Consent. Except as required by the Exchange Act and by the rules and regulations of the NASD, no consent, approval or authorization of, or declaration or filing with, any governmental authority on the part of the Company or any of its Subsidiaries which has not been obtained or made is required for the valid execution and delivery by the Company of this Agreement or the valid offer, issuance, sale and delivery by the Company of the Shares pursuant to this Agreement.

3.9 Offer of Shares. Neither the Company nor anyone acting on its behalf has taken or will take any action which would subject the issuance and sale of the Shares to the registration and prospectus delivery provisions of the Securities Act.

4. Representations of ABLAC. ABLAC represents and warrants that:

4.1 Purchase for Investment. ABLAC is purchasing the Shares for ABLAC's own account (and expressly not for the account of any pension or trust fund) for investment and

not with a view to the distribution thereof or with any present intention of distributing or selling the Shares acquired hereby. ABLAC understands that the Shares have not been registered under the Securities Act and may be resold (which resale is not now contemplated) only if registered pursuant to the provisions of such Act or if an exemption from registration is available, and that the Company is not required to register the Shares except to the extent provided herein.

4.2 Source of Funds. One or more of the following statements is individually or collectively, as the case may be, an accurate representation as to the source of all the funds to be used by ABLAC to pay the Purchase Price:

(a) if ABLAC is an insurance company, no part of such funds constitute assets allocated to a separate account (within the meaning of ERISA and the regulations thereunder) maintained by ABLAC in which an employee benefit plan (or its related trust) has any interest; or

(b) if ABLAC is an insurance company, to the extent that any part of such funds constitutes assets allocated to any separate account maintained by ABLAC, (i) such separate account is a "pooled separate account" within the meaning of Prohibited Transaction Class Exemption ("PTE") 90-1, in which case ABLAC have disclosed to the Company in writing the names of each employee benefit plan whose assets in such separate account exceed 10% of the total assets or are expected to exceed 10% of the total assets of such account as of the date of such purchase (and for the purposes of this Section 4.2, all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan), and every relevant requirement of PTE 90-1 specifically applicable to ABLAC which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of such date of purchase or (ii) such separate account contains only the assets of a specific employee benefit plan, complete and accurate information as to the identity of which ABLAC have delivered to the Company in writing; or

(c) if ABLAC is a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of Prohibited Transaction Class Exemption 84-14 (the "QPAM Exemption")) of such funds which constitute assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by ABLAC, every relevant requirement of the QPAM Exemption specifically applicable to ABLAC which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of the date of such purchase and ABLAC have disclosed to the Company in writing ABLAC's name as such QPAM and the names of all employee benefit plans whose assets are included in such investment fund;

(d) if ABLAC is an investment company, ABLAC is registered under the 1940 Act;

(e) if ABLAC is other than an insurance company or an investment company, all or a portion of such funds consists of funds which do not constitute assets of any employee benefit plan and the remaining portion, if any, of such funds consists of funds which may be deemed to constitute assets of one or more specific employee benefit plans, complete and accurate information as to the identity of each of which ABLAC deliv-

ered to the Company in writing; or

(f) if ABLAC's funds constitute assets of an "investment fund" (within the meaning of the QPAM Exemption referred to in subparagraph (c) above), such assets of such "investment fund" are managed by a QPAM (as defined in subparagraph (c) above), such QPAM has investment discretion with respect to the transaction for purposes of applying the QPAM exemption, and every relevant requirement of the QPAM Exemption specifically applicable to such QPAM which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of the date of such purchase.

As used in this Section 4.2, the term "employee benefit plan" shall mean any employee benefit plan subject to section 406 of ERISA and any employee benefit plan or individual retirement account subject to section 4975 of the Internal Revenue Code of 1986, as amended from time to time, and the term "separate account" shall have the meaning assigned to it in section 3 of ERISA.

5. Registration under Securities Act, etc.

5.1 Registration on Request.

(a) Request. Upon the written request of the Initiating Holders, requesting that the Company effect the registration under the Securities Act of all or part of such Initiating Holders' Registrable Securities and specifying the intended method of disposition thereof, the Company will, subject to the terms hereof, promptly give written notice of such requested registration to all registered holders of Registrable Securities, and thereupon the Company will use its reasonable best efforts to effect the registration under the Securities Act of

(i) the Registrable Securities which the Company has been so requested to register by such Initiating Holders for disposition in accordance with the intended method of disposition stated in such request, and

(ii) all other Registrable Securities the holders of which shall have made a written request to the Company for registration thereof within 30 days after the giving of such written notice by the Company (which request shall specify the intended method of disposition of such Registrable Securities),

all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Common Stock, so to be registered. The Company shall have the right to select the managing underwriter in any registration pursuant to this Section 5.1, subject to the approval of the Initiating Holders (not to be unreasonably withheld).

(b) Registration Statement Form. Registrations under this Section 5.1 shall be on such appropriate registration form of the Commission (i) as shall be selected by the Company and (ii) as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in the request(s) for registration made pursuant to Section 5.1(a).

(c) Expenses. The Company will pay all Registration Expenses in connection with the registration requested pursuant to this Section 5.1.

(d) Effective Registration Statement. A registration requested pursuant to this Section 5.1 shall not be deemed to have been effected (i) unless a registration statement with respect thereto has become effective, provided that a registration which does not become effective after the Company has filed a registration statement with respect thereto solely by reason of the refusal to proceed of the Initiating Holders shall be deemed to have been effected by the Company at the request of such Initiating Holders unless the Initiating Holders shall have agreed in writing to pay all Registration Expenses in connection with such registration, (ii) if, after it has become effective, such registration becomes subject to any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason, or (iii) the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied, other than by reason of some act or omission by such Initiating Holders.

(e) Priority in Requested Registrations. If a requested registration pursuant to this Section 5.1 involves an underwritten offering, and the managing underwriter shall advise the Company in writing (with a copy to each holder of Registrable Securities requesting registration) that, in its opinion, the number of securities requested to be included in such registration (including securities of the Company which are not Registrable Securities) exceeds the number which can be sold in such offering within a price range acceptable to the holders of a majority of the Registrable Securities requested to be included in such registration, the Company will include in such registration, to the extent of the number which the Company is so advised can be sold in such offering, (i) first, Registrable Securities requested to be included in such registration, pro rata among the holders thereof requesting such registration on the basis of the number of such securities requested to be included by such holders, (ii) second, securities the Company proposes to sell and (iii) other securities of the Company requested to be included in such registration by the holders thereof.

(f) Deferral. Notwithstanding the foregoing, (i) in the event that the Company intends to commence a public offering of securities to which Section 5.2 hereof will apply, it shall so notify the holders of Registrable Securities in writing and such holders shall be deemed to have waived their right to request registration under this Section 5.1 for a period of 120 days following such notice and (ii) the Company may delay the filing of a registration statement for a period not exceeding one hundred and eighty (180) days following the Company's receipt of the written request of the Initiating Holders pursuant to Section 5.1(a) hereof at any time when (A) the Company is in possession of material non-public information the disclosure of which, in the exercise of the Company's reasonable good faith judgment, the Company believes would be adverse to the best interests of the Company or (B) such registration would adversely affect (including, without limitation, through the premature disclosure thereof) a proposed financing, reorganization, recapi-

talization, merger, consolidation or similar transaction.

(g) Limitations on Registration Obligations. Notwithstanding the foregoing provisions of this Section 5.1, the Company shall not be obligated to (i) file more than two registration statements pursuant to Section 5.1(a) hereof; or (ii) file and use its reasonable best efforts to cause to become effective (A) a registration statement pursuant to this Section 5.1 (1) within 180 days immediately following the effective date of any registration statement pertaining to an underwritten offering of the Company's securities or (2) if a special or interim audit of the financial statements of the Company or any of its affiliates would be necessary in order for the financial statements required to be included in such registration statement to meet the requirements of Regulation S-X or similar rules promulgated by the Commission, (B) more than one registration statement in any twelve-month period or (C) any such registration statement where the proposed aggregate offering price of the Registrable Securities to be sold thereunder is less than $3 million; or (iii) keep effective any registration statement filed pursuant to this Section 5.1 for a period of more than ninety (90) days.

5.2 Incidental Registration.

(a) Right to Include Registrable Securities. If the Company shall at any time after the date hereof propose to register any shares of its Common Stock under the Securities Act (other than a registration in connection with an offering of shares to employees of the Company pursuant to a stock plan, or in connection with the issuance of securities or assets of or relating to a merger with another corporation), the Company shall notify the holders of any Registrable Securities as promptly as possible of such proposed registration, following which notice such holder shall have thirty (30) days after the receipt of such notice to request inclusion in such registration of any Registrable Securities. The Company shall, if so requested, include such Registrable Securities in such registration unless the proposed managing underwriter of the securities covered by the registration advises the Company that the inclusion of such shares would, in the opinion of such underwriter, raise a substantial question as to whether the proposed offering by the Company could be successfully consummated on terms reasonably acceptable to the Company. The Company shall pay all Registration Expenses relating to a registration pursuant to this Section 5.2.

5.3 Indemnification.

(a) Indemnification by the Company. In the event of any registration of any securities of the Company under the Securities Act in accordance with this Section 5, the Company will, and hereby does, indemnify and hold harmless each holder of Registrable Securities included in such registration, each underwriter of the securities so registered and each person who controls any such underwriter within the meaning of Section 15 of the Securities Act, against any and all losses, claims, damages or liabilities to which they or any of them may become subject under the Securities Act or any other statute or common law of the United States or any jurisdiction therein, including any amount paid in settlement of any litigation, commenced or threatened, if such settlement is effected with the written consent

of the Company, and to reimburse them for any legal or other expenses incurred by them in connection with investigating any claims and defending any actions insofar as any such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any

untrue statement or alleged untrue statement of a material fact contained in the registration statement relating to the sale of such Registrable Securities, or any post-effective amendment thereof, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, if used prior to the effective date of such registration statement, or contained in the prospectus (as amended or supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) if used within the period during which the Company is required to keep the registration statement to which such prospectus relates current, or the omission or alleged omission to state therein (if so used) a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the indemnification agreement contained in this Section 5.3(a) shall not (x) apply to any such losses, claims, damages, expenses, liabilities or actions arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by such holder or such underwriter for use in connection with preparation of the registration statement or any such amendment thereof of supplement thereto; or (y) inure to the benefit of any underwriter (or to the benefit of any person controlling such underwriter) from whom the person asserting any such losses, claims, damages, expenses, liabilities or actions purchased the securities which are the subject thereof if such underwriter failed to send or give a copy of the prospectus to such person at or prior to the written confirmation of the sale of such securities to such person.

(b) Indemnification by the Sellers. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to this Section 5, that the Company shall have received an undertaking satisfactory to it from the prospective seller of such Registrable Securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in subdivision (a) of this Section 5.3) the Company, each director of the Company,

each officer of the Company and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such seller for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or

supplement. Any such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of Registrable Securities by any seller.

(c) Notices of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding subdivisions of this Section 5.3, such indemnified party will, if a claim in respect thereof may be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this Section 5.3, except to the extent that the indemnifying party is prejudiced by such failure to give notice. In case any such action is brought against an indemnified party in respect of such claim, the indemnifying party shall be entitled to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof; provided that if in the reasonable good faith judgment of the indemnified party a conflict of interest exists between such indemnified party and the indemnifying party, the indemnifying party shall be entitled to be represented by one counsel of its own choosing (the reasonable fees and disbursements of which shall be payable by the indemnifying party) and to participate in the defense of such action. No

indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement of any such action which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party.

6. Definitions.

6.1 Certain Defined Terms. As used herein the following terms have the following respective meanings:

Affiliate: any Person directly or indirectly controlling or controlled by or under common control with the Company or any Subsidiary, including (without limitation) any Person beneficially owning or holding 10% or more of any class of voting securities of the Company or any Subsidiary or any other corporation of which the Company or any Subsidiary owns or holds 10% or more of any class of voting securities, provided that, for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, or the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

Business Day: any day excluding Saturday, Sunday

and any other day on which banks are required or authorized to close in New York City.

By-Laws: By-Laws of the Company, as in effect at the time.

Certificate of Incorporation: Certificate of Incorporation of the Company, as in effect at the time.

Closing: as defined in Section 2.1 hereof.

Closing Date: as defined in Section 2.1 hereof.

Common Stock: as defined in the introduction to this Agreement.

Company: as defined in the introduction to this Agreement.

Company SEC Documents: as defined in Section 3.2 hereof.

ERISA: the Employee Retirement Income Security Act of 1974, as amended from time to time.

Exchange Act: the Securities Exchange Act of 1934, or any successor federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

GAAP: generally accepted accounting principles as from time to time in effect in the United States as set forth in the opinions and pronouncements of the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board or in such opinions, statements and pronouncements as may be issued by any successor to either such entity.

Initiating Holders: any holder or holders of Registrable Securities holding at least 51% of the Registrable Securities (by number of shares at the time issued and outstanding), and initiating a request pursuant to Section 5 hereof for the registration of all or part of such holder's or holders' Registrable Securities.

Material Adverse Change: as defined in Section 3.5 hereof.

NASD: the National Association of Securities Dealers, Inc.

1940 Act: The Investment Company Act of 1940 or any successor Federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

Person: a corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

Purchase Price: as defined in the introduction to this Agreement.

Registrable Securities: (a) the Shares and (b) any Common Stock issued or issuable with respect to the Shares by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to

any particular Registrable Securities, once issued, such securities shall cease to be Registrable Securities when (w) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (x) they shall have been distributed to the public pursuant to Rule 144 (or any successor provision) under the Securities Act, (y) they shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of them shall not require registration or qualification of them under the Securities Act or any similar state law then in force, or (z) they shall have ceased to be outstanding.

Registration Expenses: all expenses incident to the Company's performance of or compliance with Section 5 hereof, including, without limitation, all registration, filing and NASD fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, but excluding underwriting discounts and commissions and transfer taxes, if any, and excluding the fees and disbursements of counsel and accountants retained by the holder or holders of any Registrable Securities being registered.

SEC: the United States Securities and Exchange Commission.

Securities Act: the Securities Act of 1933, or any successor federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

Subsidiary: any corporation, association or other business entity a majority (by number of votes) of the Voting Stock of which is at the time owned by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries.

Voting Stock: stock of any class or classes (or equivalent interests), if the holders of the stock of such class or classes (or equivalent interests) are ordinarily, in the absence of contingencies, entitled to vote for the election of the directors (or persons performing similar functions) of such business entity, even though the right so to vote has been suspended by the happening of such a contingency.

6.2 Other Provisions Regarding Definitions: (a) Unless otherwise defined therein, all terms defined in this Agreement shall have the defined meanings when used in any certificate, report or other document made or delivered pursuant to this Agreement.

(b) The words "hereof," "herein," and "hereunder," and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

7. Miscellaneous.

7.1 Survival of Representations and Warranties; Severability. All representations and warranties contained in this Agreement shall survive the execution and delivery of this Agreement, and the Closing. Any provision of this

Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

7.2 Amendment and Waiver. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and ABLAC. Any amendment or waiver effected in accordance with this Section 7.2 shall be binding upon ABLAC and the Company.

7.3 Notices, etc. Except as otherwise provided in this Agreement, notices and other communications under this Agreement shall be in writing and shall be delivered, or mailed by registered or certified mail, return receipt requested, by a nationally recognized overnight courier, postage prepaid, or by telecopy addressed: (i) if to ABLAC, at such address or telecopy number as ABLAC shall have furnished to the Company in writing from time to time for such purpose, or (ii) if to the Company, at such address or telecopy number as the Company shall have furnished to ABLAC in writing from time to time for such purpose, to the attention of its President.

7.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto, whether so expressed or not.

7.5 Descriptive Headings. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

7.6 Fees and Expenses. Whether or not the Closing occurs and except as otherwise expressly set forth herein, each party shall pay its own expenses incurred by it in connection with the transactions contemplated by this Agreement, including without limitation, the reasonable fees and expenses of its counsel.

7.7 Stamp or Other Tax. Should any stamp, excise tax or similar administration or governmental charge become payable in respect of this Agreement or any modification hereof or thereof, the Company shall pay the same (including interest and penalties, if any) and shall hold ABLAC harmless with respect thereto.

7.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

7.9 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

7.10 Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein. This Agreement supersedes all prior agreements and understandings between the parties including, without limitation, the Purchase Agreement, with

respect to such subject matter.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all on the day and year first above written

HARRIS & HARRIS GROUP, INC.

By: /s/_____
Name: Robert B. Schulz
Title: President

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

STANDSTILL AGREEMENT

STANDSTILL AGREEMENT dated as of May 18, 1995 by and among American Bankers Life Assurance Company of Florida and American Bankers Insurance Company of Florida (together the "Investor") and Harris & Harris Group, Inc. (the "Company").

The Investor and the Company are entering into a Stock Purchase Agreement of even date herewith (the "Stock Purchase Agreement"), whereby, upon the terms set forth therein, the Investor is purchasing from the Company, and the Company is issuing and selling to the Investor, 1,075,269 shares (the "Shares") of the Company's Common Stock, $.01 par value per share (the "Common Stock"), constituting approximately 10.4% of the shares of common stock outstanding after giving effect to such issuance.

As a condition to entering into the Stock Purchase Agreement, the Company has required that the Investor, and as an inducement to the Company to enter into the Stock Purchase Agreement the Investor has agreed to, enter into this Agreement.

In consideration of the foregoing, and the agreements contained herein, the parties hereto agree as follows:

A. Restriction on Acquisitions of Voting Securities. The Investor will not, and will cause the other members of the Investor Group (as defined herein) not to, in any manner, acquire, agree to acquire, make any proposal to acquire, directly or indirectly, any Voting Securities (as defined herein) if, after any such acquisition, the Investor Group would beneficially own Voting Securities possessing aggregate voting power in excess of 10.5% of the total

voting power of all then outstanding Voting Securities. For purposes of this Agreement, (i) "Investor Group" means the Investor, its subsidiaries and affiliates, their respective officers and directors and any person acting on behalf of the Investor, any of such subsidiaries or affiliates or their respective officers and directors and (ii) "Voting Securities" means the Shares, any other shares of Common Stock and any other issued and outstanding securities of the Company generally entitled to vote in the election of directors.

B. Restrictions on Certain Other Actions. The Investor will not, and will cause the other members of the Investor Group not to:

(1) propose to enter into, or announce or disclose any intention to propose to enter into, directly or indirectly, any merger or business combination involving the Company or any of its subsidiaries or to purchase, directly or indirectly, a material portion of the assets of the Company or any of its subsidiaries;

(2) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are defined or used in Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) to vote, or seek to advise or influence any person or entity with respect to the voting of, any Voting Securities, or become a "participant" in any "election contest" (as such terms are used or defined in Regulation 14A of the Exchange Act) relating to the election of directors of the Company; provided, however, that neither the Investor nor any other member of the Investor Group shall be deemed to have engaged in a "solicitation" or to have become a "participant" by reason of voting its Voting Securities in any such election in accordance with the provisions of this Agreement;

(3) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) or otherwise act in concert with any person or entity, (i) for the purpose of circumventing the provisions of this Agreement or, (ii) other than other members of the Investor Group (to the extent permitted by this Agreement), for the purpose of acquiring, holding, voting or disposing of any Voting Securities;

(4) request the Company (or its directors, officers, employees or agents), directly or indirectly, to amend or waive Section 1 hereto or any of paragraphs (i) through (iv) of this Section 2, or take any action which might require the Company or any member of the Investor Group to make a public announcement regarding the possibility of (A) a business combination or merger involving the Company or any of its subsidiaries, on the one hand, and any member of the Investor Group, on the other hand, or (B) the sale to any member of the Investor Group of a material portion of the assets of the Company or any of its subsidiaries.

(5) deposit any Voting Securities in a voting trust, or subject any Voting Securities to a voting or similar agreement; or

(6) sell, transfer, pledge or otherwise dispose of or encumber any Voting Securities except:

(A) sales or transfers of Voting Securities to another member of the Investor Group, provided such member has agreed in writing to be bound by all of the provisions of this Agreement applicable to such member's transferor;

(B) sales of Voting Securities pursuant to a firm commitment, underwritten distribution to the public, registered pursuant to Section 5 of the Stock Purchase Agreement or otherwise under the Securities Act of 1933, as amended (the "Securities Act"), in which the Investor and the other members of the Investor Group use their best efforts to effect as wide a distribution of such Voting Securities as reasonably practicable and to prevent any person or entity, affiliated persons or entities or other group from purchasing through such offering Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities;

(C) sales of Voting Securities in privately negotiated transactions, in which the Investor and the other members of the Investor Group use their best efforts to prevent any person or entity, affiliated persons or entities or other group from purchasing through such transactions Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities; provided that the Investor gives written notice to the Company at least thirty (30) days prior to the date of any such sale specifying the amount of Voting Securities which the Investor and the other members of the Investor Group intend to sell and that, if during such thirty (30) day period the Company gives written notice to the Investor of the pendency of any underwritten offering by the Company of Voting Securities, neither the Investor nor any other member of the Investor Group will effect any sales pursuant to such privately negotiated transactions until sixty (60) days after the consummation of such offering;

(D) sales of Voting Securities pursuant to Rule 144 of the General Rules and Regulations under the Securities Act; provided that (1) no such sale shall be effected to the extent the member of the Investor Group seeking to effect such sale knows or has reason to believe that the purchaser of Voting Securities in such sale would, after such purchase, beneficially own Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities and (2) the Investor shall give written notice to the Company at least ten (10) days prior to the date of any such sale specifying the amount of Voting Securities which the Investor and the other members of the Investor Group intend to sell and that, if during such ten (10) day period the Company gives written notice to the Investor of the pendency of any underwritten offering by the Company of Voting Securities, neither the Investor nor any other member of the Investor Group will effect any such sale until sixty (60) days after the consummation of such offering; or

(E) sales of Voting Securities to the Company or in a tender or exchange offer by a third party.

C. Voting. In any election of directors of the Company, the Investor and each other member of the Investor Group will vote, or execute written consents with respect to, their Voting Securities, in accordance with the recommendation of the Company's Board of Directors.

D. Termination. This Agreement shall terminate automatically without any further action by any party on May 18, 2002. Upon such termination, this Agreement shall be void and of no further force of effect, except that such termination shall not relieve a party from liability for breach of this Agreement prior to such termination.

E. Amendment and Waiver. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively but without limitation of Section 2(iv)) only with the prior written consent of the Company and the Investor.

F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto; provided that the rights, obligations, covenants and agreements of the Investor hereunder may not be assigned or delegated, as applicable, except as provided in Section 2(vi)(A).

G. Notices. All notices, requests and other communications to any party hereunder shall be in writing and shall be given (and shall be deemed to have been given upon receipt) if delivered in person or sent by facsimile, telegram, telex, by registered or certified mail (postage prepaid, return receipt requested) or by reputable overnight courier to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 7):

if to the Investor, to:

American Bankers Insurance Group
11222 Quail Roost Drive
Miami, Florida 33157
Attention: Mr. Floyd Denison
Facsimile: (305) 252-7068

if to the Company, to:

Harris & Harris Group, Inc.
One Rockefeller Plaza
14 West 49th Street
New York, New York 10020
Attention: Chief Executive Officer
Facsimile: (212) 332-3601

with a copy to:

Skadden, Arps, Slate, Meagher & Flom
One Beacon Street
Boston, MA 02108
Attention: Kent A. Coit, Esq.
Facsimile: (617) 573-4822

H. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

I. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

HARRIS & HARRIS GROUP, INC.

By: /s/_____
Name: Robert B. Schulz
Title: President

TERMINATION AND RELEASE AGREEMENT

HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA ("ABLAC") are the parties to a Note and Warrant Purchase Agreement, dated as of August 17, 1994 (the "Purchase Agreement").

The Company and ABLAC hereby agree that effective as of the date hereof (i) the Purchase Agreement is terminated and shall be null and void and of no further force or effect and (ii) each of the Company and ABLAC shall have no, and hereby forever irrevocably releases the other from any, liability or obligation under or with respect to the Purchase Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of this 18th day of May, 1995.

HARRIS & HARRIS GROUP, INC.

/s/_____
Name: Robert B. Schulz
Title: President and COO

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

/s/_____
Name: Floyd Denison
Title: Senior Vice President

STOCK PURCHASE AGREEMENT

by and among

HARRIS & HARRIS GROUP, INC.

and

AMERICAN BANKERS LIFE ASSURANCE
COMPANY OF FLORIDA

and

AMERICAN BANKERS INSURANCE
COMPANY OF FLORIDA

Dated as of May 18, 1995

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STOCK PURCHASE AGREEMENT

dated as of May 18, 1995

by and between

HARRIS & HARRIS GROUP, INC.

and

AMERICAN BANKERS LIFE ASSURANCE COMPANY
OF FLORIDA

and

AMERICAN BANKERS INSURANCE COMPANY
OF FLORIDA

STOCK PURCHASE AGREEMENT (the "Agreement"), dated as of May 18, 1995, by and among HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA ("ABLACOF") and AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA ("ABIC"; ABLACOF AND ABIC being referred to individually or collectively as the context requires as "ABLAC").

The Company and ABLACOF are parties to a Note and Warrant Purchase Agreement, dated as of August 17, 1994 (the "Purchase Agreement"). Pursuant to a Termination and Release Agreement of even date herewith, the Company and ABLACOF have agreed to terminate the Purchase Agreement. The Company and ABLAC wish to provide for the purchase of 1,075,269 shares (the "Shares") of common stock, par value $.01 per share, of the Company (the "Common Stock"), by ABLAC for a purchase price of $5,000,000.85 (the "Purchase Price"). Certain capitalized terms used in this Agreement are defined in Section 6 hereof.

Concurrently with the execution and delivery of this Agreement, the Company and ABLAC are entering into a Standstill Agreement whereby ABLAC is agreeing to certain restrictions with respect to the acquisition, disposition and voting of Voting Stock (the "Standstill Agreement").

The Company and ABLAC hereby agree as follows:

1. Sale and Purchase of the Shares.

1.1 Authorization of the Shares. Prior to the date hereof, the Company has authorized the issuance and sale of the Shares.

1.2 Sale and Purchase of the Shares. Subject to

the terms and conditions of this Agreement, and in reliance upon the representations and warranties contained herein, at the Closing (as hereinafter defined), the Company is issuing, selling and delivering to ABLAC, and ABLAC is purchasing from the Company, the Shares, for the Purchase Price.

2. Closing

2.1 Closing. The Closing of the transaction provided for in Section 1.2 hereof (the "Closing") is taking place at the offices of Skadden, Arps, Slate, Meagher & Flom, 919 Third Avenue, New York, New York 10022, at 10:00 a.m., New York City time, on the date hereof. The date of the Closing is referred to herein as the "Closing Date."

2.2 Deliveries at the Closing. At the Closing, the Company is delivering to ABLAC a certificate or certificates for the Shares, registered in the name of ABLAC against payment by ABLAC to the Company of Five Million Dollars ($5,000,000) by wire transfer of immediately available funds.

3. Representations and Warranties of the Company. The Company represents and warrants that:

3.1 Organization, Standing, etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted, to enter into this Agreement, to issue and sell the Shares and to carry out the terms of this Agreement.

3.2 SEC Reports and Financial Statements. The Company has heretofore made available to ABLAC complete and correct copies of all forms, reports and documents required to be filed by it since January 1, 1993 under the Securities Act or the Exchange Act (as such documents have been amended since the time of their filing, collectively, the "Company SEC Documents"). The Company SEC Documents, including without limitation, any financial statements or schedules included therein, at the time filed, (a) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (b) complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act, as the case may be. The consolidated financial statements of the Company included in the Company SEC Documents, at the time filed, complied as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited statements included in the Company SEC Documents, as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of the unaudited statements, to normal, recurring audit adjustments) in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended.

3.3 Authorization of the Shares. The execution, delivery and performance by the Company of this Agreement and the issuance and sale of the Shares hereunder have been duly authorized by all requisite corporate action on the part of the Company and will not conflict with, or result in a breach of the terms, conditions or provisions of the

Certificate of Incorporation or By-laws.

3.4 Valid and Binding Obligation. This Agreement has been duly executed and delivered by the Company and is the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms except as limited by bankruptcy and other laws affecting creditors' rights generally and by general principles of equity.

3.5 No Material Adverse Change. Except as previously disclosed to ABLAC in writing or in the Company SEC Documents, since December 31, 1994, there has not been any material adverse change in the assets, business or financial condition of the Company and its Subsidiaries taken as a whole (a "Material Adverse Change").

3.6 Litigation, etc. There is no action, proceeding or investigation pending or, to the knowledge of the Company, threatened which questions the validity or legality of, or seeks damages in connection with, this Agreement or the transaction contemplated hereby, or any action taken or to be taken pursuant to this Agreement or the transaction contemplated hereby or which is reasonably likely to result in a Material Adverse Change.

3.7 Compliance with Other Instruments, etc. Neither the Company nor any of its Subsidiaries is in violation of any term of the Certificate of Incorporation or the By-Laws. Neither the Company nor any of its Subsidiaries is in violation of any term of any agreement or instrument to which it is a party or by which it is bound or any term of any applicable law, ordinance, rule or regulation of any governmental authority or any term of any applicable order, judgment or decree of any court, arbitrator or governmental authority, which violation is reasonably likely to result in a Material Adverse Change. The execution, delivery and performance by the Company of this Agreement will not result in any such violation of, or be in conflict with or constitute a default under, any such term or result in the creation of (or impose any obligation on the Company or any of its Subsidiaries to create) any lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to any such term, except for any such conflict or default which is not reasonably likely to result in a Material Adverse Change.

3.8 Governmental Consent. Except as required by the Exchange Act and by the rules and regulations of the NASD, no consent, approval or authorization of, or declaration or filing with, any governmental authority on the part of the Company or any of its Subsidiaries which has not been obtained or made is required for the valid execution and delivery by the Company of this Agreement or the valid offer, issuance, sale and delivery by the Company of the Shares pursuant to this Agreement.

3.9 Offer of Shares. Neither the Company nor anyone acting on its behalf has taken or will take any action which would subject the issuance and sale of the Shares to the registration and prospectus delivery provisions of the Securities Act.

4. Representations of ABLAC. ABLAC represents and warrants that:

4.1 Purchase for Investment. ABLAC is purchasing the Shares for ABLAC's own account (and expressly not for the account of any pension or trust fund) for investment and

not with a view to the distribution thereof or with any present intention of distributing or selling the Shares acquired hereby. ABLAC understands that the Shares have not been registered under the Securities Act and may be resold (which resale is not now contemplated) only if registered pursuant to the provisions of such Act or if an exemption from registration is available, and that the Company is not required to register the Shares except to the extent provided herein.

4.2 Source of Funds. One or more of the following statements is individually or collectively, as the case may be, an accurate representation as to the source of all the funds to be used by ABLAC to pay the Purchase Price:

(a) if ABLAC is an insurance company, no part of such funds constitute assets allocated to a separate account (within the meaning of ERISA and the regulations thereunder) maintained by ABLAC in which an employee benefit plan (or its related trust) has any interest; or

(b) if ABLAC is an insurance company, to the extent that any part of such funds constitutes assets allocated to any separate account maintained by ABLAC, (i) such separate account is a "pooled separate account" within the meaning of Prohibited Transaction Class Exemption ("PTE") 90-1, in which case ABLAC have disclosed to the Company in writing the names of each employee benefit plan whose assets in such separate account exceed 10% of the total assets or are expected to exceed 10% of the total assets of such account as of the date of such purchase (and for the purposes of this Section 4.2, all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan), and every relevant requirement of PTE 90-1 specifically applicable to ABLAC which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of such date of purchase or (ii) such separate account contains only the assets of a specific employee benefit plan, complete and accurate information as to the identity of which ABLAC have delivered to the Company in writing; or

(c) if ABLAC is a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of Prohibited Transaction Class Exemption 84-14 (the "QPAM Exemption")) of such funds which constitute assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by ABLAC, every relevant requirement of the QPAM Exemption specifically applicable to ABLAC which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of the date of such purchase and ABLAC have disclosed to the Company in writing ABLAC's name as such QPAM and the names of all employee benefit plans whose assets are included in such investment fund;

(d) if ABLAC is an investment company, ABLAC is registered under the 1940 Act;

(e) if ABLAC is other than an insurance company or an investment company, all or a portion of such funds consists of funds which do not constitute assets of any employee benefit plan and the remaining portion, if any, of such funds consists of funds which may be deemed to constitute assets of one or more specific employee benefit plans, complete and accurate information as to the identity of each of which ABLAC deliv-

ered to the Company in writing; or

(f) if ABLAC's funds constitute assets of an "investment fund" (within the meaning of the QPAM Exemption referred to in subparagraph (c) above), such assets of such "investment fund" are managed by a QPAM (as defined in subparagraph (c) above), such QPAM has investment discretion with respect to the transaction for purposes of applying the QPAM exemption, and every relevant requirement of the QPAM Exemption specifically applicable to such QPAM which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of the date of such purchase.

As used in this Section 4.2, the term "employee benefit plan" shall mean any employee benefit plan subject to section 406 of ERISA and any employee benefit plan or individual retirement account subject to section 4975 of the Internal Revenue Code of 1986, as amended from time to time, and the term "separate account" shall have the meaning assigned to it in section 3 of ERISA.

5. Registration under Securities Act, etc.

5.1 Registration on Request.

(a) Request. Upon the written request of the Initiating Holders, requesting that the Company effect the registration under the Securities Act of all or part of such Initiating Holders' Registrable Securities and specifying the intended method of disposition thereof, the Company will, subject to the terms hereof, promptly give written notice of such requested registration to all registered holders of Registrable Securities, and thereupon the Company will use its reasonable best efforts to effect the registration under the Securities Act of

(i) the Registrable Securities which the Company has been so requested to register by such Initiating Holders for disposition in accordance with the intended method of disposition stated in such request, and

(ii) all other Registrable Securities the holders of which shall have made a written request to the Company for registration thereof within 30 days after the giving of such written notice by the Company (which request shall specify the intended method of disposition of such Registrable Securities),

all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Common Stock, so to be registered. The Company shall have the right to select the managing underwriter in any registration pursuant to this Section 5.1, subject to the approval of the Initiating Holders (not to be unreasonably withheld).

(b) Registration Statement Form. Registrations under this Section 5.1 shall be on such appropriate registration form of the Commission (i) as shall be selected by the Company and (ii) as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in the request(s) for registration made pursuant to Section 5.1(a).

(c) Expenses. The Company will pay all Registration Expenses in connection with the registration requested pursuant to this Section 5.1.

(d) Effective Registration Statement. A registration requested pursuant to this Section 5.1 shall not be deemed to have been effected (i) unless a registration statement with respect thereto has become effective, provided that a registration which does not become effective after the Company has filed a registration statement with respect thereto solely by reason of the refusal to proceed of the Initiating Holders shall be deemed to have been effected by the Company at the request of such Initiating Holders unless the Initiating Holders shall have agreed in writing to pay all Registration Expenses in connection with such registration, (ii) if, after it has become effective, such registration becomes subject to any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason, or (iii) the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied, other than by reason of some act or omission by such Initiating Holders.

(e) Priority in Requested Registrations. If a requested registration pursuant to this Section 5.1 involves an underwritten offering, and the managing underwriter shall advise the Company in writing (with a copy to each holder of Registrable Securities requesting registration) that, in its opinion, the number of securities requested to be included in such registration (including securities of the Company which are not Registrable Securities) exceeds the number which can be sold in such offering within a price range acceptable to the holders of a majority of the Registrable Securities requested to be included in such registration, the Company will include in such registration, to the extent of the number which the Company is so advised can be sold in such offering, (i) first, Registrable Securities requested to be included in such registration, pro rata among the holders thereof requesting such registration on the basis of the number of such securities requested to be included by such holders, (ii) second, securities the Company proposes to sell and (iii) other securities of the Company requested to be included in such registration by the holders thereof.

(f) Deferral. Notwithstanding the foregoing, (i) in the event that the Company intends to commence a public offering of securities to which Section 5.2 hereof will apply, it shall so notify the holders of Registrable Securities in writing and such holders shall be deemed to have waived their right to request registration under this Section 5.1 for a period of 120 days following such notice and (ii) the Company may delay the filing of a registration statement for a period not exceeding one hundred and eighty (180) days following the Company's receipt of the written request of the Initiating Holders pursuant to Section 5.1(a) hereof at any time when (A) the Company is in possession of material non-public information the disclosure of which, in the exercise of the Company's reasonable good faith judgment, the Company believes would be adverse to the best interests of the Company or (B) such registration would adversely affect (including, without limitation, through the premature disclosure thereof) a proposed financing, reorganization, recapi-

talization, merger, consolidation or similar transaction.

(g) Limitations on Registration Obligations. Notwithstanding the foregoing provisions of this Section 5.1, the Company shall not be obligated to (i) file more than two registration statements pursuant to Section 5.1(a) hereof; or (ii) file and use its reasonable best efforts to cause to become effective (A) a registration statement pursuant to this Section 5.1 (1) within 180 days immediately following the effective date of any registration statement pertaining to an underwritten offering of the Company's securities or (2) if a special or interim audit of the financial statements of the Company or any of its affiliates would be necessary in order for the financial statements required to be included in such registration statement to meet the requirements of Regulation S-X or similar rules promulgated by the Commission, (B) more than one registration statement in any twelve-month period or (C) any such registration statement where the proposed aggregate offering price of the Registrable Securities to be sold thereunder is less than $3 million; or (iii) keep effective any registration statement filed pursuant to this Section 5.1 for a period of more than ninety (90) days.

5.2 Incidental Registration.

(a) Right to Include Registrable Securities. If the Company shall at any time after the date hereof propose to register any shares of its Common Stock under the Securities Act (other than a registration in connection with an offering of shares to employees of the Company pursuant to a stock plan, or in connection with the issuance of securities or assets of or relating to a merger with another corporation), the Company shall notify the holders of any Registrable Securities as promptly as possible of such proposed registration, following which notice such holder shall have thirty (30) days after the receipt of such notice to request inclusion in such registration of any Registrable Securities. The Company shall, if so requested, include such Registrable Securities in such registration unless the proposed managing underwriter of the securities covered by the registration advises the Company that the inclusion of such shares would, in the opinion of such underwriter, raise a substantial question as to whether the proposed offering by the Company could be successfully consummated on terms reasonably acceptable to the Company. The Company shall pay all Registration Expenses relating to a registration pursuant to this Section 5.2.

5.3 Indemnification.

(a) Indemnification by the Company. In the event of any registration of any securities of the Company under the Securities Act in accordance with this Section 5, the Company will, and hereby does, indemnify and hold harmless each holder of Registrable Securities included in such registration, each underwriter of the securities so registered and each person who controls any such underwriter within the meaning of Section 15 of the Securities Act, against any and all losses, claims, damages or liabilities to which they or any of them may become subject under the Securities Act or any other statute or common law of the United States or any jurisdiction therein, including any amount paid in settlement of any litigation, commenced or threatened, if such settlement is effected with the written consent

of the Company, and to reimburse them for any legal or other expenses incurred by them in connection with investigating any claims and defending any actions insofar as any such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any

untrue statement or alleged untrue statement of a material fact contained in the registration statement relating to the sale of such Registrable Securities, or any post-effective amendment thereof, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, if used prior to the effective date of such registration statement, or contained in the prospectus (as amended or supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) if used within the period during which the Company is required to keep the registration statement to which such prospectus relates current, or the omission or alleged omission to state therein (if so used) a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the indemnification agreement contained in this Section 5.3(a) shall not (x) apply to any such losses, claims, damages, expenses, liabilities or actions arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by such holder or such underwriter for use in connection with preparation of the registration statement or any such amendment thereof of supplement thereto; or (y) inure to the benefit of any underwriter (or to the benefit of any person controlling such underwriter) from whom the person asserting any such losses, claims, damages, expenses, liabilities or actions purchased the securities which are the subject thereof if such underwriter failed to send or give a copy of the prospectus to such person at or prior to the written confirmation of the sale of such securities to such person.

(b) Indemnification by the Sellers. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to this Section 5, that the Company shall have received an undertaking satisfactory to it from the prospective seller of such Registrable Securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in subdivision (a) of this Section 5.3) the Company, each director of the Company,

each officer of the Company and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such seller for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or

supplement. Any such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of Registrable Securities by any seller.

(c) Notices of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding subdivisions of this Section 5.3, such indemnified party will, if a claim in respect thereof may be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this Section 5.3, except to the extent that the indemnifying party is prejudiced by such failure to give notice. In case any such action is brought against an indemnified party in respect of such claim, the indemnifying party shall be entitled to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof; provided that if in the reasonable good faith judgment of the indemnified party a conflict of interest exists between such indemnified party and the indemnifying party, the indemnifying party shall be entitled to be represented by one counsel of its own choosing (the reasonable fees and disbursements of which shall be payable by the indemnifying party) and to participate in the defense of such action. No

indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement of any such action which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party.

6. Definitions.

6.1 Certain Defined Terms. As used herein the following terms have the following respective meanings:

Affiliate: any Person directly or indirectly controlling or controlled by or under common control with the Company or any Subsidiary, including (without limitation) any Person beneficially owning or holding 10% or more of any class of voting securities of the Company or any Subsidiary or any other corporation of which the Company or any Subsidiary owns or holds 10% or more of any class of voting securities, provided that, for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, or the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

Business Day: any day excluding Saturday, Sunday

and any other day on which banks are required or authorized to close in New York City.

By-Laws: By-Laws of the Company, as in effect at the time.

Certificate of Incorporation: Certificate of Incorporation of the Company, as in effect at the time.

Closing: as defined in Section 2.1 hereof.

Closing Date: as defined in Section 2.1 hereof.

Common Stock: as defined in the introduction to this Agreement.

Company: as defined in the introduction to this Agreement.

Company SEC Documents: as defined in Section 3.2 hereof.

ERISA: the Employee Retirement Income Security Act of 1974, as amended from time to time.

Exchange Act: the Securities Exchange Act of 1934, or any successor federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

GAAP: generally accepted accounting principles as from time to time in effect in the United States as set forth in the opinions and pronouncements of the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board or in such opinions, statements and pronouncements as may be issued by any successor to either such entity.

Initiating Holders: any holder or holders of Registrable Securities holding at least 51% of the Registrable Securities (by number of shares at the time issued and outstanding), and initiating a request pursuant to Section 5 hereof for the registration of all or part of such holder's or holders' Registrable Securities.

Material Adverse Change: as defined in Section 3.5 hereof.

NASD: the National Association of Securities Dealers, Inc.

1940 Act: The Investment Company Act of 1940 or any successor Federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

Person: a corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

Purchase Price: as defined in the introduction to this Agreement.

Registrable Securities: (a) the Shares and (b) any Common Stock issued or issuable with respect to the Shares by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to

any particular Registrable Securities, once issued, such securities shall cease to be Registrable Securities when (w) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (x) they shall have been distributed to the public pursuant to Rule 144 (or any successor provision) under the Securities Act, (y) they shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of them shall not require registration or qualification of them under the Securities Act or any similar state law then in force, or (z) they shall have ceased to be outstanding.

Registration Expenses: all expenses incident to the Company's performance of or compliance with Section 5 hereof, including, without limitation, all registration, filing and NASD fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, but excluding underwriting discounts and commissions and transfer taxes, if any, and excluding the fees and disbursements of counsel and accountants retained by the holder or holders of any Registrable Securities being registered.

SEC: the United States Securities and Exchange Commission.

Securities Act: the Securities Act of 1933, or any successor federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

Subsidiary: any corporation, association or other business entity a majority (by number of votes) of the Voting Stock of which is at the time owned by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries.

Voting Stock: stock of any class or classes (or equivalent interests), if the holders of the stock of such class or classes (or equivalent interests) are ordinarily, in the absence of contingencies, entitled to vote for the election of the directors (or persons performing similar functions) of such business entity, even though the right so to vote has been suspended by the happening of such a contingency.

6.2 Other Provisions Regarding Definitions: (a) Unless otherwise defined therein, all terms defined in this Agreement shall have the defined meanings when used in any certificate, report or other document made or delivered pursuant to this Agreement.

(b) The words "hereof," "herein," and "hereunder," and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

7. Miscellaneous.

7.1 Survival of Representations and Warranties; Severability. All representations and warranties contained in this Agreement shall survive the execution and delivery of this Agreement, and the Closing. Any provision of this

Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

7.2 Amendment and Waiver. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and ABLAC. Any amendment or waiver effected in accordance with this Section 7.2 shall be binding upon ABLAC and the Company.

7.3 Notices, etc. Except as otherwise provided in this Agreement, notices and other communications under this Agreement shall be in writing and shall be delivered, or mailed by registered or certified mail, return receipt requested, by a nationally recognized overnight courier, postage prepaid, or by telecopy addressed: (i) if to ABLAC, at such address or telecopy number as ABLAC shall have furnished to the Company in writing from time to time for such purpose, or (ii) if to the Company, at such address or telecopy number as the Company shall have furnished to ABLAC in writing from time to time for such purpose, to the attention of its President.

7.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto, whether so expressed or not.

7.5 Descriptive Headings. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

7.6 Fees and Expenses. Whether or not the Closing occurs and except as otherwise expressly set forth herein, each party shall pay its own expenses incurred by it in connection with the transactions contemplated by this Agreement, including without limitation, the reasonable fees and expenses of its counsel.

7.7 Stamp or Other Tax. Should any stamp, excise tax or similar administration or governmental charge become payable in respect of this Agreement or any modification hereof or thereof, the Company shall pay the same (including interest and penalties, if any) and shall hold ABLAC harmless with respect thereto.

7.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

7.9 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

7.10 Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein. This Agreement supersedes all prior agreements and understandings between the parties including, without limitation, the Purchase Agreement, with

respect to such subject matter.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all on the day and year first above written

HARRIS & HARRIS GROUP, INC.

By: /s/_____
Name: Robert B. Schulz
Title: President

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

STANDSTILL AGREEMENT

STANDSTILL AGREEMENT dated as of May 18, 1995 by and among American Bankers Life Assurance Company of Florida and American Bankers Insurance Company of Florida (together the "Investor") and Harris & Harris Group, Inc. (the "Company").

The Investor and the Company are entering into a Stock Purchase Agreement of even date herewith (the "Stock Purchase Agreement"), whereby, upon the terms set forth therein, the Investor is purchasing from the Company, and the Company is issuing and selling to the Investor, 1,075,269 shares (the "Shares") of the Company's Common Stock, $.01 par value per share (the "Common Stock"), constituting approximately 10.4% of the shares of common stock outstanding after giving effect to such issuance.

As a condition to entering into the Stock Purchase Agreement, the Company has required that the Investor, and as an inducement to the Company to enter into the Stock Purchase Agreement the Investor has agreed to, enter into this Agreement.

In consideration of the foregoing, and the agreements contained herein, the parties hereto agree as follows:

A. Restriction on Acquisitions of Voting Securities. The Investor will not, and will cause the other members of the Investor Group (as defined herein) not to, in any manner, acquire, agree to acquire, make any proposal to acquire, directly or indirectly, any Voting Securities (as defined herein) if, after any such acquisition, the Investor Group would beneficially own Voting Securities possessing aggregate voting power in excess of 10.5% of the total

voting power of all then outstanding Voting Securities. For purposes of this Agreement, (i) "Investor Group" means the Investor, its subsidiaries and affiliates, their respective officers and directors and any person acting on behalf of the Investor, any of such subsidiaries or affiliates or their respective officers and directors and (ii) "Voting Securities" means the Shares, any other shares of Common Stock and any other issued and outstanding securities of the Company generally entitled to vote in the election of directors.

B. Restrictions on Certain Other Actions. The Investor will not, and will cause the other members of the Investor Group not to:

(1) propose to enter into, or announce or disclose any intention to propose to enter into, directly or indirectly, any merger or business combination involving the Company or any of its subsidiaries or to purchase, directly or indirectly, a material portion of the assets of the Company or any of its subsidiaries;

(2) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are defined or used in Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) to vote, or seek to advise or influence any person or entity with respect to the voting of, any Voting Securities, or become a "participant" in any "election contest" (as such terms are used or defined in Regulation 14A of the Exchange Act) relating to the election of directors of the Company; provided, however, that neither the Investor nor any other member of the Investor Group shall be deemed to have engaged in a "solicitation" or to have become a "participant" by reason of voting its Voting Securities in any such election in accordance with the provisions of this Agreement;

(3) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) or otherwise act in concert with any person or entity, (i) for the purpose of circumventing the provisions of this Agreement or, (ii) other than other members of the Investor Group (to the extent permitted by this Agreement), for the purpose of acquiring, holding, voting or disposing of any Voting Securities;

(4) request the Company (or its directors, officers, employees or agents), directly or indirectly, to amend or waive Section 1 hereto or any of paragraphs (i) through (iv) of this Section 2, or take any action which might require the Company or any member of the Investor Group to make a public announcement regarding the possibility of (A) a business combination or merger involving the Company or any of its subsidiaries, on the one hand, and any member of the Investor Group, on the other hand, or (B) the sale to any member of the Investor Group of a material portion of the assets of the Company or any of its subsidiaries.

(5) deposit any Voting Securities in a voting trust, or subject any Voting Securities to a voting or similar agreement; or

(6) sell, transfer, pledge or otherwise dispose of or encumber any Voting Securities except:

(A) sales or transfers of Voting Securities to another member of the Investor Group, provided such member has agreed in writing to be bound by all of the provisions of this Agreement applicable to such member's transferor;

(B) sales of Voting Securities pursuant to a firm commitment, underwritten distribution to the public, registered pursuant to Section 5 of the Stock Purchase Agreement or otherwise under the Securities Act of 1933, as amended (the "Securities Act"), in which the Investor and the other members of the Investor Group use their best efforts to effect as wide a distribution of such Voting Securities as reasonably practicable and to prevent any person or entity, affiliated persons or entities or other group from purchasing through such offering Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities;

(C) sales of Voting Securities in privately negotiated transactions, in which the Investor and the other members of the Investor Group use their best efforts to prevent any person or entity, affiliated persons or entities or other group from purchasing through such transactions Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities; provided that the Investor gives written notice to the Company at least thirty (30) days prior to the date of any such sale specifying the amount of Voting Securities which the Investor and the other members of the Investor Group intend to sell and that, if during such thirty (30) day period the Company gives written notice to the Investor of the pendency of any underwritten offering by the Company of Voting Securities, neither the Investor nor any other member of the Investor Group will effect any sales pursuant to such privately negotiated transactions until sixty (60) days after the consummation of such offering;

(D) sales of Voting Securities pursuant to Rule 144 of the General Rules and Regulations under the Securities Act; provided that (1) no such sale shall be effected to the extent the member of the Investor Group seeking to effect such sale knows or has reason to believe that the purchaser of Voting Securities in such sale would, after such purchase, beneficially own Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities and (2) the Investor shall give written notice to the Company at least ten (10) days prior to the date of any such sale specifying the amount of Voting Securities which the Investor and the other members of the Investor Group intend to sell and that, if during such ten (10) day period the Company gives written notice to the Investor of the pendency of any underwritten offering by the Company of Voting Securities, neither the Investor nor any other member of the Investor Group will effect any such sale until sixty (60) days after the consummation of such offering; or

(E) sales of Voting Securities to the Company or in a tender or exchange offer by a third party.

C. Voting. In any election of directors of the Company, the Investor and each other member of the Investor Group will vote, or execute written consents with respect to, their Voting Securities, in accordance with the recommendation of the Company's Board of Directors.

D. Termination. This Agreement shall terminate automatically without any further action by any party on May 18, 2002. Upon such termination, this Agreement shall be void and of no further force of effect, except that such termination shall not relieve a party from liability for breach of this Agreement prior to such termination.

E. Amendment and Waiver. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively but without limitation of Section 2(iv)) only with the prior written consent of the Company and the Investor.

F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto; provided that the rights, obligations, covenants and agreements of the Investor hereunder may not be assigned or delegated, as applicable, except as provided in Section 2(vi)(A).

G. Notices. All notices, requests and other communications to any party hereunder shall be in writing and shall be given (and shall be deemed to have been given upon receipt) if delivered in person or sent by facsimile, telegram, telex, by registered or certified mail (postage prepaid, return receipt requested) or by reputable overnight courier to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 7):

if to the Investor, to:

American Bankers Insurance Group
11222 Quail Roost Drive
Miami, Florida 33157
Attention: Mr. Floyd Denison
Facsimile: (305) 252-7068

if to the Company, to:

Harris & Harris Group, Inc.
One Rockefeller Plaza
14 West 49th Street
New York, New York 10020
Attention: Chief Executive Officer
Facsimile: (212) 332-3601

with a copy to:

Skadden, Arps, Slate, Meagher & Flom
One Beacon Street
Boston, MA 02108
Attention: Kent A. Coit, Esq.
Facsimile: (617) 573-4822

H. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

I. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

HARRIS & HARRIS GROUP, INC.

By: /s/_____
Name: Robert B. Schulz
Title: President

TERMINATION AND RELEASE AGREEMENT

HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA ("ABLAC") are the parties to a Note and Warrant Purchase Agreement, dated as of August 17, 1994 (the "Purchase Agreement").

The Company and ABLAC hereby agree that effective as of the date hereof (i) the Purchase Agreement is terminated and shall be null and void and of no further force or effect and (ii) each of the Company and ABLAC shall have no, and hereby forever irrevocably releases the other from any, liability or obligation under or with respect to the Purchase Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of this 18th day of May, 1995.

HARRIS & HARRIS GROUP, INC.

/s/_____
Name: Robert B. Schulz
Title: President and COO

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

/s/_____
Name: Floyd Denison
Title: Senior Vice President

STOCK PURCHASE AGREEMENT

by and among

HARRIS & HARRIS GROUP, INC.

and

AMERICAN BANKERS LIFE ASSURANCE
COMPANY OF FLORIDA

and

AMERICAN BANKERS INSURANCE
COMPANY OF FLORIDA

Dated as of May 18, 1995

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STOCK PURCHASE AGREEMENT

dated as of May 18, 1995

by and between

HARRIS & HARRIS GROUP, INC.

and

AMERICAN BANKERS LIFE ASSURANCE COMPANY
OF FLORIDA

and

AMERICAN BANKERS INSURANCE COMPANY
OF FLORIDA

STOCK PURCHASE AGREEMENT (the "Agreement"), dated as of May 18, 1995, by and among HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA ("ABLACOF") and AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA ("ABIC"; ABLACOF AND ABIC being referred to individually or collectively as the context requires as "ABLAC").

The Company and ABLACOF are parties to a Note and Warrant Purchase Agreement, dated as of August 17, 1994 (the "Purchase Agreement"). Pursuant to a Termination and Release Agreement of even date herewith, the Company and ABLACOF have agreed to terminate the Purchase Agreement. The Company and ABLAC wish to provide for the purchase of 1,075,269 shares (the "Shares") of common stock, par value $.01 per share, of the Company (the "Common Stock"), by ABLAC for a purchase price of $5,000,000.85 (the "Purchase Price"). Certain capitalized terms used in this Agreement are defined in Section 6 hereof.

Concurrently with the execution and delivery of this Agreement, the Company and ABLAC are entering into a Standstill Agreement whereby ABLAC is agreeing to certain restrictions with respect to the acquisition, disposition and voting of Voting Stock (the "Standstill Agreement").

The Company and ABLAC hereby agree as follows:

1. Sale and Purchase of the Shares.

1.1 Authorization of the Shares. Prior to the date hereof, the Company has authorized the issuance and sale of the Shares.

1.2 Sale and Purchase of the Shares. Subject to

the terms and conditions of this Agreement, and in reliance upon the representations and warranties contained herein, at the Closing (as hereinafter defined), the Company is issuing, selling and delivering to ABLAC, and ABLAC is purchasing from the Company, the Shares, for the Purchase Price.

2. Closing

2.1 Closing. The Closing of the transaction provided for in Section 1.2 hereof (the "Closing") is taking place at the offices of Skadden, Arps, Slate, Meagher & Flom, 919 Third Avenue, New York, New York 10022, at 10:00 a.m., New York City time, on the date hereof. The date of the Closing is referred to herein as the "Closing Date."

2.2 Deliveries at the Closing. At the Closing, the Company is delivering to ABLAC a certificate or certificates for the Shares, registered in the name of ABLAC against payment by ABLAC to the Company of Five Million Dollars ($5,000,000) by wire transfer of immediately available funds.

3. Representations and Warranties of the Company. The Company represents and warrants that:

3.1 Organization, Standing, etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted, to enter into this Agreement, to issue and sell the Shares and to carry out the terms of this Agreement.

3.2 SEC Reports and Financial Statements. The Company has heretofore made available to ABLAC complete and correct copies of all forms, reports and documents required to be filed by it since January 1, 1993 under the Securities Act or the Exchange Act (as such documents have been amended since the time of their filing, collectively, the "Company SEC Documents"). The Company SEC Documents, including without limitation, any financial statements or schedules included therein, at the time filed, (a) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (b) complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act, as the case may be. The consolidated financial statements of the Company included in the Company SEC Documents, at the time filed, complied as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited statements included in the Company SEC Documents, as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of the unaudited statements, to normal, recurring audit adjustments) in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended.

3.3 Authorization of the Shares. The execution, delivery and performance by the Company of this Agreement and the issuance and sale of the Shares hereunder have been duly authorized by all requisite corporate action on the part of the Company and will not conflict with, or result in a breach of the terms, conditions or provisions of the

Certificate of Incorporation or By-laws.

3.4 Valid and Binding Obligation. This Agreement has been duly executed and delivered by the Company and is the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms except as limited by bankruptcy and other laws affecting creditors' rights generally and by general principles of equity.

3.5 No Material Adverse Change. Except as previously disclosed to ABLAC in writing or in the Company SEC Documents, since December 31, 1994, there has not been any material adverse change in the assets, business or financial condition of the Company and its Subsidiaries taken as a whole (a "Material Adverse Change").

3.6 Litigation, etc. There is no action, proceeding or investigation pending or, to the knowledge of the Company, threatened which questions the validity or legality of, or seeks damages in connection with, this Agreement or the transaction contemplated hereby, or any action taken or to be taken pursuant to this Agreement or the transaction contemplated hereby or which is reasonably likely to result in a Material Adverse Change.

3.7 Compliance with Other Instruments, etc. Neither the Company nor any of its Subsidiaries is in violation of any term of the Certificate of Incorporation or the By-Laws. Neither the Company nor any of its Subsidiaries is in violation of any term of any agreement or instrument to which it is a party or by which it is bound or any term of any applicable law, ordinance, rule or regulation of any governmental authority or any term of any applicable order, judgment or decree of any court, arbitrator or governmental authority, which violation is reasonably likely to result in a Material Adverse Change. The execution, delivery and performance by the Company of this Agreement will not result in any such violation of, or be in conflict with or constitute a default under, any such term or result in the creation of (or impose any obligation on the Company or any of its Subsidiaries to create) any lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to any such term, except for any such conflict or default which is not reasonably likely to result in a Material Adverse Change.

3.8 Governmental Consent. Except as required by the Exchange Act and by the rules and regulations of the NASD, no consent, approval or authorization of, or declaration or filing with, any governmental authority on the part of the Company or any of its Subsidiaries which has not been obtained or made is required for the valid execution and delivery by the Company of this Agreement or the valid offer, issuance, sale and delivery by the Company of the Shares pursuant to this Agreement.

3.9 Offer of Shares. Neither the Company nor anyone acting on its behalf has taken or will take any action which would subject the issuance and sale of the Shares to the registration and prospectus delivery provisions of the Securities Act.

4. Representations of ABLAC. ABLAC represents and warrants that:

4.1 Purchase for Investment. ABLAC is purchasing the Shares for ABLAC's own account (and expressly not for the account of any pension or trust fund) for investment and

not with a view to the distribution thereof or with any present intention of distributing or selling the Shares acquired hereby. ABLAC understands that the Shares have not been registered under the Securities Act and may be resold (which resale is not now contemplated) only if registered pursuant to the provisions of such Act or if an exemption from registration is available, and that the Company is not required to register the Shares except to the extent provided herein.

4.2 Source of Funds. One or more of the following statements is individually or collectively, as the case may be, an accurate representation as to the source of all the funds to be used by ABLAC to pay the Purchase Price:

(a) if ABLAC is an insurance company, no part of such funds constitute assets allocated to a separate account (within the meaning of ERISA and the regulations thereunder) maintained by ABLAC in which an employee benefit plan (or its related trust) has any interest; or

(b) if ABLAC is an insurance company, to the extent that any part of such funds constitutes assets allocated to any separate account maintained by ABLAC, (i) such separate account is a "pooled separate account" within the meaning of Prohibited Transaction Class Exemption ("PTE") 90-1, in which case ABLAC have disclosed to the Company in writing the names of each employee benefit plan whose assets in such separate account exceed 10% of the total assets or are expected to exceed 10% of the total assets of such account as of the date of such purchase (and for the purposes of this Section 4.2, all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan), and every relevant requirement of PTE 90-1 specifically applicable to ABLAC which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of such date of purchase or (ii) such separate account contains only the assets of a specific employee benefit plan, complete and accurate information as to the identity of which ABLAC have delivered to the Company in writing; or

(c) if ABLAC is a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of Prohibited Transaction Class Exemption 84-14 (the "QPAM Exemption")) of such funds which constitute assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by ABLAC, every relevant requirement of the QPAM Exemption specifically applicable to ABLAC which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of the date of such purchase and ABLAC have disclosed to the Company in writing ABLAC's name as such QPAM and the names of all employee benefit plans whose assets are included in such investment fund;

(d) if ABLAC is an investment company, ABLAC is registered under the 1940 Act;

(e) if ABLAC is other than an insurance company or an investment company, all or a portion of such funds consists of funds which do not constitute assets of any employee benefit plan and the remaining portion, if any, of such funds consists of funds which may be deemed to constitute assets of one or more specific employee benefit plans, complete and accurate information as to the identity of each of which ABLAC deliv-

ered to the Company in writing; or

(f) if ABLAC's funds constitute assets of an "investment fund" (within the meaning of the QPAM Exemption referred to in subparagraph (c) above), such assets of such "investment fund" are managed by a QPAM (as defined in subparagraph (c) above), such QPAM has investment discretion with respect to the transaction for purposes of applying the QPAM exemption, and every relevant requirement of the QPAM Exemption specifically applicable to such QPAM which is required to be satisfied as of the date of such purchase will be satisfied in all material respects as of the date of such purchase.

As used in this Section 4.2, the term "employee benefit plan" shall mean any employee benefit plan subject to section 406 of ERISA and any employee benefit plan or individual retirement account subject to section 4975 of the Internal Revenue Code of 1986, as amended from time to time, and the term "separate account" shall have the meaning assigned to it in section 3 of ERISA.

5. Registration under Securities Act, etc.

5.1 Registration on Request.

(a) Request. Upon the written request of the Initiating Holders, requesting that the Company effect the registration under the Securities Act of all or part of such Initiating Holders' Registrable Securities and specifying the intended method of disposition thereof, the Company will, subject to the terms hereof, promptly give written notice of such requested registration to all registered holders of Registrable Securities, and thereupon the Company will use its reasonable best efforts to effect the registration under the Securities Act of

(i) the Registrable Securities which the Company has been so requested to register by such Initiating Holders for disposition in accordance with the intended method of disposition stated in such request, and

(ii) all other Registrable Securities the holders of which shall have made a written request to the Company for registration thereof within 30 days after the giving of such written notice by the Company (which request shall specify the intended method of disposition of such Registrable Securities),

all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Common Stock, so to be registered. The Company shall have the right to select the managing underwriter in any registration pursuant to this Section 5.1, subject to the approval of the Initiating Holders (not to be unreasonably withheld).

(b) Registration Statement Form. Registrations under this Section 5.1 shall be on such appropriate registration form of the Commission (i) as shall be selected by the Company and (ii) as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in the request(s) for registration made pursuant to Section 5.1(a).

(c) Expenses. The Company will pay all Registration Expenses in connection with the registration requested pursuant to this Section 5.1.

(d) Effective Registration Statement. A registration requested pursuant to this Section 5.1 shall not be deemed to have been effected (i) unless a registration statement with respect thereto has become effective, provided that a registration which does not become effective after the Company has filed a registration statement with respect thereto solely by reason of the refusal to proceed of the Initiating Holders shall be deemed to have been effected by the Company at the request of such Initiating Holders unless the Initiating Holders shall have agreed in writing to pay all Registration Expenses in connection with such registration, (ii) if, after it has become effective, such registration becomes subject to any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason, or (iii) the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied, other than by reason of some act or omission by such Initiating Holders.

(e) Priority in Requested Registrations. If a requested registration pursuant to this Section 5.1 involves an underwritten offering, and the managing underwriter shall advise the Company in writing (with a copy to each holder of Registrable Securities requesting registration) that, in its opinion, the number of securities requested to be included in such registration (including securities of the Company which are not Registrable Securities) exceeds the number which can be sold in such offering within a price range acceptable to the holders of a majority of the Registrable Securities requested to be included in such registration, the Company will include in such registration, to the extent of the number which the Company is so advised can be sold in such offering, (i) first, Registrable Securities requested to be included in such registration, pro rata among the holders thereof requesting such registration on the basis of the number of such securities requested to be included by such holders, (ii) second, securities the Company proposes to sell and (iii) other securities of the Company requested to be included in such registration by the holders thereof.

(f) Deferral. Notwithstanding the foregoing, (i) in the event that the Company intends to commence a public offering of securities to which Section 5.2 hereof will apply, it shall so notify the holders of Registrable Securities in writing and such holders shall be deemed to have waived their right to request registration under this Section 5.1 for a period of 120 days following such notice and (ii) the Company may delay the filing of a registration statement for a period not exceeding one hundred and eighty (180) days following the Company's receipt of the written request of the Initiating Holders pursuant to Section 5.1(a) hereof at any time when (A) the Company is in possession of material non-public information the disclosure of which, in the exercise of the Company's reasonable good faith judgment, the Company believes would be adverse to the best interests of the Company or (B) such registration would adversely affect (including, without limitation, through the premature disclosure thereof) a proposed financing, reorganization, recapi-

talization, merger, consolidation or similar transaction.

(g) Limitations on Registration Obligations. Notwithstanding the foregoing provisions of this Section 5.1, the Company shall not be obligated to (i) file more than two registration statements pursuant to Section 5.1(a) hereof; or (ii) file and use its reasonable best efforts to cause to become effective (A) a registration statement pursuant to this Section 5.1 (1) within 180 days immediately following the effective date of any registration statement pertaining to an underwritten offering of the Company's securities or (2) if a special or interim audit of the financial statements of the Company or any of its affiliates would be necessary in order for the financial statements required to be included in such registration statement to meet the requirements of Regulation S-X or similar rules promulgated by the Commission, (B) more than one registration statement in any twelve-month period or (C) any such registration statement where the proposed aggregate offering price of the Registrable Securities to be sold thereunder is less than $3 million; or (iii) keep effective any registration statement filed pursuant to this Section 5.1 for a period of more than ninety (90) days.

5.2 Incidental Registration.

(a) Right to Include Registrable Securities. If the Company shall at any time after the date hereof propose to register any shares of its Common Stock under the Securities Act (other than a registration in connection with an offering of shares to employees of the Company pursuant to a stock plan, or in connection with the issuance of securities or assets of or relating to a merger with another corporation), the Company shall notify the holders of any Registrable Securities as promptly as possible of such proposed registration, following which notice such holder shall have thirty (30) days after the receipt of such notice to request inclusion in such registration of any Registrable Securities. The Company shall, if so requested, include such Registrable Securities in such registration unless the proposed managing underwriter of the securities covered by the registration advises the Company that the inclusion of such shares would, in the opinion of such underwriter, raise a substantial question as to whether the proposed offering by the Company could be successfully consummated on terms reasonably acceptable to the Company. The Company shall pay all Registration Expenses relating to a registration pursuant to this Section 5.2.

5.3 Indemnification.

(a) Indemnification by the Company. In the event of any registration of any securities of the Company under the Securities Act in accordance with this Section 5, the Company will, and hereby does, indemnify and hold harmless each holder of Registrable Securities included in such registration, each underwriter of the securities so registered and each person who controls any such underwriter within the meaning of Section 15 of the Securities Act, against any and all losses, claims, damages or liabilities to which they or any of them may become subject under the Securities Act or any other statute or common law of the United States or any jurisdiction therein, including any amount paid in settlement of any litigation, commenced or threatened, if such settlement is effected with the written consent

of the Company, and to reimburse them for any legal or other expenses incurred by them in connection with investigating any claims and defending any actions insofar as any such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any

untrue statement or alleged untrue statement of a material fact contained in the registration statement relating to the sale of such Registrable Securities, or any post-effective amendment thereof, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, if used prior to the effective date of such registration statement, or contained in the prospectus (as amended or supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) if used within the period during which the Company is required to keep the registration statement to which such prospectus relates current, or the omission or alleged omission to state therein (if so used) a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the indemnification agreement contained in this Section 5.3(a) shall not (x) apply to any such losses, claims, damages, expenses, liabilities or actions arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by such holder or such underwriter for use in connection with preparation of the registration statement or any such amendment thereof of supplement thereto; or (y) inure to the benefit of any underwriter (or to the benefit of any person controlling such underwriter) from whom the person asserting any such losses, claims, damages, expenses, liabilities or actions purchased the securities which are the subject thereof if such underwriter failed to send or give a copy of the prospectus to such person at or prior to the written confirmation of the sale of such securities to such person.

(b) Indemnification by the Sellers. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to this Section 5, that the Company shall have received an undertaking satisfactory to it from the prospective seller of such Registrable Securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in subdivision (a) of this Section 5.3) the Company, each director of the Company,

each officer of the Company and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such seller for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or

supplement. Any such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of Registrable Securities by any seller.

(c) Notices of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding subdivisions of this Section 5.3, such indemnified party will, if a claim in respect thereof may be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this Section 5.3, except to the extent that the indemnifying party is prejudiced by such failure to give notice. In case any such action is brought against an indemnified party in respect of such claim, the indemnifying party shall be entitled to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof; provided that if in the reasonable good faith judgment of the indemnified party a conflict of interest exists between such indemnified party and the indemnifying party, the indemnifying party shall be entitled to be represented by one counsel of its own choosing (the reasonable fees and disbursements of which shall be payable by the indemnifying party) and to participate in the defense of such action. No

indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement of any such action which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party.

6. Definitions.

6.1 Certain Defined Terms. As used herein the following terms have the following respective meanings:

Affiliate: any Person directly or indirectly controlling or controlled by or under common control with the Company or any Subsidiary, including (without limitation) any Person beneficially owning or holding 10% or more of any class of voting securities of the Company or any Subsidiary or any other corporation of which the Company or any Subsidiary owns or holds 10% or more of any class of voting securities, provided that, for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, or the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

Business Day: any day excluding Saturday, Sunday

and any other day on which banks are required or authorized to close in New York City.

By-Laws: By-Laws of the Company, as in effect at the time.

Certificate of Incorporation: Certificate of Incorporation of the Company, as in effect at the time.

Closing: as defined in Section 2.1 hereof.

Closing Date: as defined in Section 2.1 hereof.

Common Stock: as defined in the introduction to this Agreement.

Company: as defined in the introduction to this Agreement.

Company SEC Documents: as defined in Section 3.2 hereof.

ERISA: the Employee Retirement Income Security Act of 1974, as amended from time to time.

Exchange Act: the Securities Exchange Act of 1934, or any successor federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

GAAP: generally accepted accounting principles as from time to time in effect in the United States as set forth in the opinions and pronouncements of the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board or in such opinions, statements and pronouncements as may be issued by any successor to either such entity.

Initiating Holders: any holder or holders of Registrable Securities holding at least 51% of the Registrable Securities (by number of shares at the time issued and outstanding), and initiating a request pursuant to Section 5 hereof for the registration of all or part of such holder's or holders' Registrable Securities.

Material Adverse Change: as defined in Section 3.5 hereof.

NASD: the National Association of Securities Dealers, Inc.

1940 Act: The Investment Company Act of 1940 or any successor Federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

Person: a corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

Purchase Price: as defined in the introduction to this Agreement.

Registrable Securities: (a) the Shares and (b) any Common Stock issued or issuable with respect to the Shares by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to

any particular Registrable Securities, once issued, such securities shall cease to be Registrable Securities when (w) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (x) they shall have been distributed to the public pursuant to Rule 144 (or any successor provision) under the Securities Act, (y) they shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of them shall not require registration or qualification of them under the Securities Act or any similar state law then in force, or (z) they shall have ceased to be outstanding.

Registration Expenses: all expenses incident to the Company's performance of or compliance with Section 5 hereof, including, without limitation, all registration, filing and NASD fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, but excluding underwriting discounts and commissions and transfer taxes, if any, and excluding the fees and disbursements of counsel and accountants retained by the holder or holders of any Registrable Securities being registered.

SEC: the United States Securities and Exchange Commission.

Securities Act: the Securities Act of 1933, or any successor federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

Subsidiary: any corporation, association or other business entity a majority (by number of votes) of the Voting Stock of which is at the time owned by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries.

Voting Stock: stock of any class or classes (or equivalent interests), if the holders of the stock of such class or classes (or equivalent interests) are ordinarily, in the absence of contingencies, entitled to vote for the election of the directors (or persons performing similar functions) of such business entity, even though the right so to vote has been suspended by the happening of such a contingency.

6.2 Other Provisions Regarding Definitions: (a) Unless otherwise defined therein, all terms defined in this Agreement shall have the defined meanings when used in any certificate, report or other document made or delivered pursuant to this Agreement.

(b) The words "hereof," "herein," and "hereunder," and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

7. Miscellaneous.

7.1 Survival of Representations and Warranties; Severability. All representations and warranties contained in this Agreement shall survive the execution and delivery of this Agreement, and the Closing. Any provision of this

Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

7.2 Amendment and Waiver. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and ABLAC. Any amendment or waiver effected in accordance with this Section 7.2 shall be binding upon ABLAC and the Company.

7.3 Notices, etc. Except as otherwise provided in this Agreement, notices and other communications under this Agreement shall be in writing and shall be delivered, or mailed by registered or certified mail, return receipt requested, by a nationally recognized overnight courier, postage prepaid, or by telecopy addressed: (i) if to ABLAC, at such address or telecopy number as ABLAC shall have furnished to the Company in writing from time to time for such purpose, or (ii) if to the Company, at such address or telecopy number as the Company shall have furnished to ABLAC in writing from time to time for such purpose, to the attention of its President.

7.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto, whether so expressed or not.

7.5 Descriptive Headings. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

7.6 Fees and Expenses. Whether or not the Closing occurs and except as otherwise expressly set forth herein, each party shall pay its own expenses incurred by it in connection with the transactions contemplated by this Agreement, including without limitation, the reasonable fees and expenses of its counsel.

7.7 Stamp or Other Tax. Should any stamp, excise tax or similar administration or governmental charge become payable in respect of this Agreement or any modification hereof or thereof, the Company shall pay the same (including interest and penalties, if any) and shall hold ABLAC harmless with respect thereto.

7.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

7.9 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

7.10 Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein. This Agreement supersedes all prior agreements and understandings between the parties including, without limitation, the Purchase Agreement, with

respect to such subject matter.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all on the day and year first above written

HARRIS & HARRIS GROUP, INC.

By: /s/_____
Name: Robert B. Schulz
Title: President

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

STANDSTILL AGREEMENT

STANDSTILL AGREEMENT dated as of May 18, 1995 by and among American Bankers Life Assurance Company of Florida and American Bankers Insurance Company of Florida (together the "Investor") and Harris & Harris Group, Inc. (the "Company").

The Investor and the Company are entering into a Stock Purchase Agreement of even date herewith (the "Stock Purchase Agreement"), whereby, upon the terms set forth therein, the Investor is purchasing from the Company, and the Company is issuing and selling to the Investor, 1,075,269 shares (the "Shares") of the Company's Common Stock, $.01 par value per share (the "Common Stock"), constituting approximately 10.4% of the shares of common stock outstanding after giving effect to such issuance.

As a condition to entering into the Stock Purchase Agreement, the Company has required that the Investor, and as an inducement to the Company to enter into the Stock Purchase Agreement the Investor has agreed to, enter into this Agreement.

In consideration of the foregoing, and the agreements contained herein, the parties hereto agree as follows:

A. Restriction on Acquisitions of Voting Securities. The Investor will not, and will cause the other members of the Investor Group (as defined herein) not to, in any manner, acquire, agree to acquire, make any proposal to acquire, directly or indirectly, any Voting Securities (as defined herein) if, after any such acquisition, the Investor Group would beneficially own Voting Securities possessing aggregate voting power in excess of 10.5% of the total

voting power of all then outstanding Voting Securities. For purposes of this Agreement, (i) "Investor Group" means the Investor, its subsidiaries and affiliates, their respective officers and directors and any person acting on behalf of the Investor, any of such subsidiaries or affiliates or their respective officers and directors and (ii) "Voting Securities" means the Shares, any other shares of Common Stock and any other issued and outstanding securities of the Company generally entitled to vote in the election of directors.

B. Restrictions on Certain Other Actions. The Investor will not, and will cause the other members of the Investor Group not to:

(1) propose to enter into, or announce or disclose any intention to propose to enter into, directly or indirectly, any merger or business combination involving the Company or any of its subsidiaries or to purchase, directly or indirectly, a material portion of the assets of the Company or any of its subsidiaries;

(2) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are defined or used in Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) to vote, or seek to advise or influence any person or entity with respect to the voting of, any Voting Securities, or become a "participant" in any "election contest" (as such terms are used or defined in Regulation 14A of the Exchange Act) relating to the election of directors of the Company; provided, however, that neither the Investor nor any other member of the Investor Group shall be deemed to have engaged in a "solicitation" or to have become a "participant" by reason of voting its Voting Securities in any such election in accordance with the provisions of this Agreement;

(3) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) or otherwise act in concert with any person or entity, (i) for the purpose of circumventing the provisions of this Agreement or, (ii) other than other members of the Investor Group (to the extent permitted by this Agreement), for the purpose of acquiring, holding, voting or disposing of any Voting Securities;

(4) request the Company (or its directors, officers, employees or agents), directly or indirectly, to amend or waive Section 1 hereto or any of paragraphs (i) through (iv) of this Section 2, or take any action which might require the Company or any member of the Investor Group to make a public announcement regarding the possibility of (A) a business combination or merger involving the Company or any of its subsidiaries, on the one hand, and any member of the Investor Group, on the other hand, or (B) the sale to any member of the Investor Group of a material portion of the assets of the Company or any of its subsidiaries.

(5) deposit any Voting Securities in a voting trust, or subject any Voting Securities to a voting or similar agreement; or

(6) sell, transfer, pledge or otherwise dispose of or encumber any Voting Securities except:

(A) sales or transfers of Voting Securities to another member of the Investor Group, provided such member has agreed in writing to be bound by all of the provisions of this Agreement applicable to such member's transferor;

(B) sales of Voting Securities pursuant to a firm commitment, underwritten distribution to the public, registered pursuant to Section 5 of the Stock Purchase Agreement or otherwise under the Securities Act of 1933, as amended (the "Securities Act"), in which the Investor and the other members of the Investor Group use their best efforts to effect as wide a distribution of such Voting Securities as reasonably practicable and to prevent any person or entity, affiliated persons or entities or other group from purchasing through such offering Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities;

(C) sales of Voting Securities in privately negotiated transactions, in which the Investor and the other members of the Investor Group use their best efforts to prevent any person or entity, affiliated persons or entities or other group from purchasing through such transactions Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities; provided that the Investor gives written notice to the Company at least thirty (30) days prior to the date of any such sale specifying the amount of Voting Securities which the Investor and the other members of the Investor Group intend to sell and that, if during such thirty (30) day period the Company gives written notice to the Investor of the pendency of any underwritten offering by the Company of Voting Securities, neither the Investor nor any other member of the Investor Group will effect any sales pursuant to such privately negotiated transactions until sixty (60) days after the consummation of such offering;

(D) sales of Voting Securities pursuant to Rule 144 of the General Rules and Regulations under the Securities Act; provided that (1) no such sale shall be effected to the extent the member of the Investor Group seeking to effect such sale knows or has reason to believe that the purchaser of Voting Securities in such sale would, after such purchase, beneficially own Voting Securities having in the aggregate more than 4.9% of the aggregate voting power of all then outstanding Voting Securities and (2) the Investor shall give written notice to the Company at least ten (10) days prior to the date of any such sale specifying the amount of Voting Securities which the Investor and the other members of the Investor Group intend to sell and that, if during such ten (10) day period the Company gives written notice to the Investor of the pendency of any underwritten offering by the Company of Voting Securities, neither the Investor nor any other member of the Investor Group will effect any such sale until sixty (60) days after the consummation of such offering; or

(E) sales of Voting Securities to the Company or in a tender or exchange offer by a third party.

C. Voting. In any election of directors of the Company, the Investor and each other member of the Investor Group will vote, or execute written consents with respect to, their Voting Securities, in accordance with the recommendation of the Company's Board of Directors.

D. Termination. This Agreement shall terminate automatically without any further action by any party on May 18, 2002. Upon such termination, this Agreement shall be void and of no further force of effect, except that such termination shall not relieve a party from liability for breach of this Agreement prior to such termination.

E. Amendment and Waiver. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively but without limitation of Section 2(iv)) only with the prior written consent of the Company and the Investor.

F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto; provided that the rights, obligations, covenants and agreements of the Investor hereunder may not be assigned or delegated, as applicable, except as provided in Section 2(vi)(A).

G. Notices. All notices, requests and other communications to any party hereunder shall be in writing and shall be given (and shall be deemed to have been given upon receipt) if delivered in person or sent by facsimile, telegram, telex, by registered or certified mail (postage prepaid, return receipt requested) or by reputable overnight courier to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 7):

if to the Investor, to:

American Bankers Insurance Group
11222 Quail Roost Drive
Miami, Florida 33157
Attention: Mr. Floyd Denison
Facsimile: (305) 252-7068

if to the Company, to:

Harris & Harris Group, Inc.
One Rockefeller Plaza
14 West 49th Street
New York, New York 10020
Attention: Chief Executive Officer
Facsimile: (212) 332-3601

with a copy to:

Skadden, Arps, Slate, Meagher & Flom
One Beacon Street
Boston, MA 02108
Attention: Kent A. Coit, Esq.
Facsimile: (617) 573-4822

H. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

I. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA

By: /s/_____
Name: Floyd Denison
Title: Senior Vice President

HARRIS & HARRIS GROUP, INC.

By: /s/_____
Name: Robert B. Schulz
Title: President

TERMINATION AND RELEASE AGREEMENT

HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA ("ABLAC") are the parties to a Note and Warrant Purchase Agreement, dated as of August 17, 1994 (the "Purchase Agreement").

The Company and ABLAC hereby agree that effective as of the date hereof (i) the Purchase Agreement is terminated and shall be null and void and of no further force or effect and (ii) each of the Company and ABLAC shall have no, and hereby forever irrevocably releases the other from any, liability or obligation under or with respect to the Purchase Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of this 18th day of May, 1995.

HARRIS & HARRIS GROUP, INC.

/s/_____
Name: Robert B. Schulz
Title: President and COO

AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA

/s/_____
Name: Floyd Denison
Title: Senior Vice President

INDEMNIFICATION AGREEMENT

This is an Indemnification Agreement dated as of December 15, 1992 between HARRIS & HARRIS GROUP, INC., a New York corporation (the "Company"), and (the "Indemnitee").

1. Recitals. The Indemnitee is an officer/director of the Company. Article 8 of the Company's Certificate of Incorporation, as currently amended, obligates the Company to indemnify its directors and officers to the fullest extent permitted by the New York Business Corporation Law, as amended (the "NYBCL"), subject to the limitations imposed by the Investment Company Act of 1940 and the Rules and Regulations adopted thereunder. In accordance with the NYBCL and in consideration of the Indemnitee's continuing services to the Company, the Company and the Indemnitee desire to enter into this Agreement.

2. Indemnitee's Services. The Indemnitee shall diligently administer the Company's affairs in the position or positions described in paragraph 1. Subject to any obligation imposed by contract or by operation of law, (a) the Indemnitee may at any time and for any reason resign from such position or positions, and (b) the Company may at any time and for any reason (or no reason) terminate the Indemnitee's employment in such position or positions.

3. Indemnification. The Company shall indemnify the Indemnitee and hold the Indemnitee harmless against any loss or liability related to or arising from the Indemnitee's service as a director, officer, employee, or agent of the Company, or of any subsidiary or affiliate of the Company (a "Subsidiary") or in any capacity whether as a director, officer, employee, agent or in any other capacity, for any other corporation, investee, partnership, joint venture, trust, employee benefit plan or other enterprise on behalf of the Company or its subsidiaries ("Entity"), upon the following terms and conditions:

(a) The Company shall, to the fullest extent permitted by the NYBCL as now in effect--and to such greater or, with respect to acts or omissions occurring thereafter, to such lesser extent as the NYBCL (or of any successor codification of the New York corporation laws) may hereafter from time to time permit -- hold the Indemnitee harmless from and indemnify the Indemnitee against (1) all judgments rendered, fines levied, and other assessments (including amounts paid in settlement of any claims, if approved by the Company), plus (2) all reasonable costs and expenses (including, without limitation, attorneys fees, retainers, court costs, transcript costs, experts' fees, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, and delivery service fees), incurred in connection with the defense of any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative (an "Action"), related to or arising from (1) any actual or alleged act or omission of the Indemnitee at any time as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or (2) the Indemnitee's past, present, or future status as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity.

(b) Subject to a determination by a majority of the disinterested directors or a committee thereof who are not a party to such Action or by independent legal counsel in a written opinion that the Indemnitee is likely to have satisfied the standard for indemnification under the NYBCL and the Investment

Company Act of 1940, upon presentation from time to time of such invoices, statements for services rendered, or other similar documentation as the Company may reasonably request, the Company shall advance to or reimburse the Indemnitee for all reasonable costs and expenses incurred of the types specified in paragraph 3(a) in the defense of any threatened, pending, or completed Action, as and when such costs are incurred.

(c) The Company shall indemnify the Indemnitee under paragraph 3(a) only as authorized in a specific case upon a determination that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the NYBCL or in any other applicable provision of New York law. Such determination shall be made, as the Indemnitee chooses, either (1) by a majority vote of a quorum of the Company's disinterested directors who are not parties to such Action, or (2) by independent legal counsel in a written opinion. The Company shall pay the fees and expenses of any independent legal counsel chosen by the Company to make the determination contemplated by this paragraph 3(c).

(d) The indemnification provided by this Agreement shall apply only to (1) actual or alleged acts or omissions that occur during the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, and (2) actual or threatened Actions in which the Indemnitee is joined or named as a party, but which relate to or arise from alleged acts or omissions that occurred before the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or which relate to acts or omissions alleged against any former directors, officers, employees, or agents of the Company or of any Subsidiary or Entity.

(e) Nothing in this Agreement shall be deemed or construed to create any liability of the Company (1) to former directors, officers, employees, or agents or their predecessors other than Indemnitee, or to any other person not a party to this Agreement, or (2) exceeding the liability that the Company may lawfully incur in accordance with applicable New York law.

4. Conduct of Litigation.

(a) If any Action is made, brought, or threatened against the Indemnitee for which the Indemnitee may be indemnified under this Agreement, the Indemnitee shall, to the extent not inconsistent with any private insurance coverage obtained by the Company:

(l) Permit the Company to conduct the Indemnitee's defense of the Action at the Company's expense and with the use of counsel selected by the Company; or

(2) Retain counsel acceptable to the Indemnitee and the Company to defend or counsel the Indemnitee with respect to the Action, and permit the Company to monitor and direct the Indemnitee's defense.

(b) The Company shall at all times have the option to undertake the Indemnitee's defense of any Action for which the Indemnitee may be indemnified under this Agreement. If the Company elects to conduct the Indemnitee's defense, the Indemnitee shall cooperate fully with the Company in the defense of the Action. If the Company elects to conduct the Indemnitee's defense after the Indemnitee proceeds under paragraph 4(a)(2), the Company shall advance or reimburse the Indemnitee for the reasonable costs, including attorneys' fees, incurred by the Indemnitee in enabling the Company to undertake the Indemnitee's defense.

5. Reimbursement of Expenses. As required by the NYBCL,

if the Company makes any payment to the Indemnitee under this Agreement, and if it is ultimately determined that the Indemnitee was not entitled to be indemnified by the Company under the NYBCL or the Investment Company Act of 1940, the Indemnitee shall promptly repay the Company for all amounts paid to the Indemnitee under this Agreement which exceed the indemnification to which the Indemnitee is lawfully entitled.

6. Enforcement of Agreement. If the Indemnitee makes a claim for indemnification under this Agreement and the Company refuses to indemnify the Indemnitee, and if the Indemnitee then prevails in an action or proceeding brought to enforce this Agreement, the Company shall pay all reasonable costs and expenses (including attorneys' fees) incurred by the Indemnitee in connection with the action or proceeding in addition to any other indemnification required under this Agreement.

7. Notice of Claims. If the Indemnitee receives a complaint, claim, or other notice of any loss, claim, damage, or liability giving rise to a claim for indemnification under this Agreement, the Indemnitee shall promptly notify the Company of the complaint, claim, or other notice. Any failure to notify the Company, however, shall not relieve the Company from any liability under this Agreement unless the Company (a) is materially prejudiced by the failure (such as, for example, where the failure results in the exclusion or denial of the Company's otherwise available insurance coverage), and (b) had no actual knowledge of the complaint, claim, or other notice. In no event shall the Company be obligated to indemnify the Indemnitee for any settlement of any Action effected without the Company's prior consent.

8. Termination.

(a) This Agreement shall terminate (1) upon termination of the Indemnitee's service as a director, officer, employee, or agent of the Company or of any Subsidiary or Entity, or (2) upon the Company's written notice to the Indemnitee that, in the reasonable opinion of the Company, the Indemnitee has not complied with paragraph 4 of this Agreement. The Company shall not issue any such notice merely because it disagrees with a business judgment or judgments of the Indemnitee.

(b) The termination of this Agreement shall not:

(l) Terminate the Company's liability to the Indemnitee for (A) Actions against the Indemnitee related to or arising from acts or omissions occurring or alleged to have occurred before termination of this Agreement, or (B) Actions that name or join the Indemnitee as a party, but relate to or arise from acts or omissions alleged to have occurred before the Indemnitee's service as a director, officer, employee, or agent, or acts or omissions alleged against former directors, officers, employees, or agents.

(2) Render the terms and conditions of this Agreement inapplicable to any Actions subject to paragraph 8(b)(1).

9. Subrogation. If the Company makes any payment to the Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the Indemnitee's rights of recovery and the Indemnitee shall execute any documents and take any actions necessary to secure such rights (including execution of any documents necessary to enable the Company to bring suit to enforce such rights).

10. Insurance Reimbursements. The Company shall not be required to make any payment of amounts otherwise indemnifiable under this Agreement if and to the extent that the Indemnitee has otherwise actually received such payment under any insurance

policy, contract, agreement, or otherwise.

11. Notices. Any notice or other communication required or permitted under this Agreement shall be deemed given when hand-delivered or sent by registered United States mail, postage prepaid and return-receipt requested, to the intended recipient at the address set forth below or at such other address as the recipient shall hereafter furnish the sender in writing:

If to the Indemnitee: (name and address)

If to the Company: Harris & Harris Group, Inc.
One Rockefeller Plaza
Rockefeller Center
New York, New York 10020
Attention: The Chairman of the Board

12. Governing Law. The laws of New York and to the extent inconsistent therewith, the Investment Company Act of 1940, shall govern the validity, interpretation, and construction of this Agreement. Nothing in this Agreement shall require any unlawful action or inaction by any party.

13. Modification. No modification of this Agreement shall be binding unless executed in writing by the Indemnitee and the Company.

14. Headings. All "paragraph" references in this Agreement refer to numbered paragraphs of this Agreement. Paragraph headings are not part of this Agreement, but are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or any provision in it.

15. Sole Benefit. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any person other than the Company, its successors and assigns, and the Indemnitee and the Indemnitee's personal representatives, heirs, or devisees, any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provisions contained herein. The assumption of obligations and statements of responsibilities and all conditions and provisions of this Agreement are for the sole benefit of the Company, its successors and assigns, and the Indemnitee and the Indemnitee's personal representatives, heirs, or devisees.

16. Effect of Prior Agreements. This Agreement contains the entire understanding between the Company and the Indemnitee with respect to the subject matter hereof and supersedes any prior indemnification agreement between the Company or any predecessor of the Company and the Indemnitee.

IN WITNESS WHEREOF, the Indemnitee and the Company have executed several originals of this Agreement as of December 15, 1992 but actually on the dates set forth below.

THE "INDEMNITEE" HARRIS & HARRIS GROUP, INC.

_____ By:_____

Name:_______________________ Title:___________________________

Date:________________________ Date:____________________________

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HARRIS & HARRIS GROUP, INC.

1995 ANNUAL REPORT

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FINANCIAL SUMMARY

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December 31, 1995 December 31, 1994 December 31, 1993

Financial Position

Total Assets $ 37,524,555 $ 32,044,073 $ 34,534,724
Deferred Income Tax Liability $ 550,630 $ 309,151 $ 717,806
Other Liabilities $ 412,016 $ 424,120 $ 1,067,621
Net Assets $ 36,561,909 $ 31,310,802 $ 32,749,297
Net Asset Value per
Outstanding Share $ 3.54 $ 3.43 $ 3.66

Shares Outstanding 10,333,902 9,136,747 8,944,828
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% of % of % of
Classes of Assets Value Total Value Total Value Total

Publicly-traded
Equities $ 2,433,543 6.5% $ 1,177,359 3.7% $ 11,653,252 33.7%
Cash and Equivalents 364,354 1.0 221,457 0.7 127,214 0.4
U.S. Government
Obligations 20,161,558 53.7 13,639,018 42.6 14,010,514 40.6
Receivables
Receivable from
Brokers 205,789 0.5 4,041,391 12.6 0 0.0
Notes Receivable 0 0.0 54,664 0.2 71,769 0.2
Other Receivables 668,647 1.8 1,331,229 4.1 75,643 0.2
Private Placements 13,334,188 35.5 11,218,426 35.0 7,878,407 22.8
Other Assets 356,476 1.0 360,529 1.1 717,925 2.1
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Total Assets $ 37,524,555 100.0% $ 32,044,073 100.0% $ 34,534,724 100.0%
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BUSINESS STRATEGY

Harris & Harris Group is a publicly-traded, venture capital investment firm. It is an entrepreneurial company that has earned high returns on its shareholders' capital by helping other entrepreneurs realize their potential. Sometimes, Harris & Harris Group finds entrepreneurs to manage the development of intellectual property or a business idea. Other times, entrepreneurs find Harris & Harris Group.

Harris & Harris Group is perhaps best known for its co-founding of high-technology start-ups that have become highly valued, publicly-traded companies, including Alliance Pharmaceutical and Molten Metal Technology. But it also has co-founded or been at least a fifty percent owner of early-stage, low-technology companies that it has helped develop into successful, publicly-traded entities, including Re Capital Corporation and Ag Services of America. And it also invests in later stage companies, including management-led buyouts, and in deals led by other venture capitalists.

Most of Harris & Harris Group's interests in privately-held companies are intended to be sold eventually -- usually after a period of some years -- once the entrepreneurial phase of development is over and the investee company can flourish independently. But two of Harris & Harris Group's start-up

investments, the money management firms Highline Capital Management and PHZ Capital Partners, may be held for longer periods, in order to share in their generation of net free cash as they mature.

Sometimes, members of Harris & Harris Group's management team serve as board members or even operating officers of investee companies. Other times, Harris & Harris Group merely acts as an active investor, ready to assist the investee company in ways small or large.

What is common to all of Harris & Harris Group's investments in privately-held companies is that Harris & Harris Group is a resource, supplying its own capital, experience and relationships to entrepreneurial ventures. And Harris & Harris Group is constantly nurturing and drawing on its relationships with leading research universities, scientific institutions, and financial, consulting, professional and industrial organizations to bolster its own resources.

As a result of this value-added approach, Harris & Harris Group's thirteen-year, historical rate of return on its investments in private ventures has been extremely high. The Company's goal is to keep its rate of return on its venture capital investments high by continuing to find good opportunities and add high value to them.

FELLOW SHAREHOLDERS:

During the third quarter, Harris & Harris Group became, in effect, a publicly-traded venture capital firm: it became a Business Development Company ("BDC"), having obtained an exemptive order from the Securities and Exchange Commission as authorized by the shareholders at the 1994 Annual Meeting. Harris & Harris Group has been an investment company since late 1992, prior to which time it was an operating company. As a BDC, the Company will continue to invest as it has for the last thirteen years in early-stage and other venture capital investments, but it will also have greaterflexibility, including the ability to invest in entities in which other affiliated persons (not including management or directors) invest, more choices with respect to capital structure, and the ability to offer stock options as management incentives.

Since starting up Otisville BioTech (now named Alliance Pharmaceutical Corporation) in 1983, Harris & Harris Group has made venture capital investments. These high risk investments have included a few losers, but the Company's overall rates of return on its venture capital investments have been extraordinarily high. Profits from these investments have been largely responsible for the Company's growth in net assets from $109,144 at the time of incorporation in 1981 to $36,561,909 at December 31, 1995. But until the Company became an investment company in late 1992, its venture capital returns were commingled with the much lower overall returns of its operating businesses, in which the Company then had most of its capital invested.

As a BDC, the Company is in the process of investing a higher percentage of its capital than heretofore possible in venture capital opportunities. The Company still must maintain liquidity for working capital, new opportunities and follow-on investments in existing portfolio companies. But now that the Company has the flexibility of a BDC, management is studying new ways of possibly leveraging the Company's relationships, deal flow and performance record for the benefit of Harris & Harris Group's shareholders.

The Company reported net assets at December 31, 1995 of $36,561,909, as compared with $31,310,802 at December 31, 1994. Total assets at December 31, 1995 were $37,524,555, as compared with $32,044,073 at December 31, 1994.

The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at December 31, 1995 of $23,833,891, versus $20,465,118 at December 31, 1994 and $25,938,392 at December 31, 1993.

For the year ended December 31, 1995, the Company reported net pre-tax realized and unrealized appreciation on its investments of $2,109,768 and $243,414, respectively. The Company's liquidity was boosted $5,000,001 by the private placement on May 18, 1995 of 1,075,269 unregistered shares of the Company's common stock at the then-current market price with subsidiaries of

Harris & Harris Group restructured itself from an operating company that also made entrepreneurial investments into a full time BDC simply because, over the years, the Company's return on venture capital investments (defined as any cash investment in a non-publicly traded security other than an operating subsidiary of the Company), has been so high. Since the Company's first venture capital investment in 1983, in the company now named Alliance Pharmaceutical Corporation (NASDAQ/NMS symbol: ALLP), through December 31, 1995, the Company's annual internal rate of return on its venture capital investments has been 92.2 percent.

The Company's nine completed venture capital investments (i.e., those in which the Company has sold its interest), generated an annual internal rate of return of 93.4 percent. In these completed investments, the Company invested $9,754,581 and sold its interests for a total of $47,939,584. The Company's initial investments in these ventures totaled $5,339,523, and its follow-on investments totaled $4,415,058. From the time of its first investment to final sale, the average duration of these investments was 3.7 years.

The Company's current portfolio of private investments is comprised of interests in fourteen companies for which it paid a total of $13,462,816 and that it values as of December 31, 1995 at a total of $14,813,980. On average, these investments have been held for only 2.0 years and, so far, their internal rate of return to the Company has been only 6.7 percent. It would be extremely difficult (and realistically, shareholders should not expect) for the Company to bring its internal rate of return on its current portfolio and on new investments up to the extraordinary levels achieved by its completed investments. But that is what the Company's management is striving to do.

As always, we, the employees, management and directors of Harris & Harris Group, thank the shareholders for their patient support of the Company in a difficult, long-term business that requires patience. Shareholders and potential shareholders should read carefully all of the sections of this annual report, including "Company Business and Investment Objectives," to understand the nature of the Company's business. The Company does not have a balanced, diversified portfolio, and many of the Company's investments are inherently long-term and risky. The Company's common stock is not a suitable investment for investors who are impatient or are uncomfortable with or unable to bear such risk, even though the Company's overall historical returns on such investments have encouraged the Company to become a BDC.

/s/ Charles E. Harris
Chairman and Chief Executive Officer

/s/ Robert B. Schulz
President and Chief Operating Officer

February 29, 1996

SIGNIFICANT EVENTS OF 1995

January 31 Harris & Harris Group announced a $2,062,155 write-down, to $618,845, of its investment in Sonex International Corporation and estimated year-end 1994 net asset value of $3.43 per share.

February 1 Company received 108,736 shares of Charter Medical Corporation in exchange for its interest in Magellan Health Services, as part of a tax-free merger. The Company had paid $800,000 for its interest in Magellan in December, 1993. On February 1, 1995, Charter Medical's stock closed at $15 1/2 on the American Stock Exchange.

February 13 Company announced purchase of a 4.7 percent interest in Harber Brothers Productions, Inc. for $150,000.

March 23 Company elected Charles F. Hays as a director.

March 28 Company announced purchase of an 11 percent interest in Gel Sciences, Inc. for $650,000.

May 18 Company announced a $5,000,001 private placement of 1,075,269 unregistered shares of its common stock with American Bankers Insurance Group. The shares were placed at $4.65 per share, which was the average closing price of Harris & Harris Group on the NASDAQ National Market System during the ten previous trading days.

June 1 Company announced purchase of a 24.9 percent interest in Highline Capital Management, LLC. for $500,000.

June 7 Company elected James E. Roberts as a director.

June 8 Company announced purchase of an additional interest in Harber Brothers Productions, Inc. for $827,500. Including this investment, the Company now owns 21.5 percent of Harber Brothers on a fully-diluted basis.

June 23 Company announced purchase of an additional interest in Intaglio, Ltd., for $209,836. Including this investment, the Company now owns 20.4 percent of Intaglio on a fully-diluted basis.

July 26 Effective July 26, 1995, the Board of Directors elected to have the Company become a Business Development Company ("BDC").

July 28 Company reported net asset value of $3.56 per share as of June 30, 1995.

September 22 Company purchased 24.9 percent ownership interest in PHZ Capital Partners Limited Partnership. PHZ is a non-registered investment company which manages third-party assets through private limited partnerships investing primarily in publicly-traded securities in both domestic and overseas markets.

October 19 Company reported net asset value of $3.52 per share as of September 30, 1995.

November 8 Company announced purchase of an additional 600,000 shares of Nanophase Technologies Corporation's Series D Preferred Stock for $600,000. Including the 562,204 shares of Series D Preferred Stock previously acquired, the Company's total investment is now $1,162,204, representing approximately a 10.1 percent fully-diluted interest in Nanophase.

December 22 Company announced that Mr. Joel Voelz had joined nFX Corporation as President and CEO.

December 28 Company announced that it had sold its entire interest of Guilford Pharmaceuticals, Inc., in the open market for $3,040,621. The Company had acquired these shares in the second half of 1995 for a total of $1,624,195.

After December 31, 1995, but before publication of 1995 Annual Report

February 6 Company reported net asset value of $3.54 per share as of December 31, 1995.

February 20 Company announced that nFX Corporation had closed a $1 million equity private placement, in which the Company purchased an additional $440,000 of nFX Series B Convertible Preferred Stock and maintained its 37.8 percent fully-diluted ownership interest in nFX. Prior to this financing, Harris & Harris Group had valued its holdings in nFX at $3,988,959.

February 27 Company purchased for $400,000, Series A Convertible Preferred Stock of PureSpeech, Inc., representing a 3.7 percent fully-diluted equity interest.

1995 INVESTMENT ACTIVITY

Harber Brothers Productions, Inc.

In February 1995, the Company purchased 150,000 shares of Harber Brothers Productions, Inc., Series A Voting Convertible Preferred Stock for $150,000; and in June 1995, the Company purchased 827,500 shares of Harber Brothers Productions, Inc., Series A Voting Convertible Preferred Stock for $827,500. The Series A Preferred Stock is convertible into shares of common stock. The combined purchases represent a 21.5 percent fully-diluted ownership interest in Harber Brothers Productions.

Harber Brothers is a privately-held, New York City based company that intends to finance, produce and market media products that combine entertainment, music, learning and interactivity. Harber Brothers is producing its first titles, interviewing developers, and establishing distribution channels. Harber Brothers has received $1,500,000 in total paid-in capital.

Gel Sciences, Inc.

In March 1995, the Company purchased 1,181,819 shares of Series B Preferred Stock and five-year warrants exercisable into 72,728 shares of common stock of Gel Sciences, Inc., for $650,000. The Series B Preferred is convertible into 1,181,819 shares of common stock at $.55 per share.

In December 1995, the Company purchased 41,250 shares of common stock and 22,275 shares of Series A Non-Convertible Preferred Stock of Gel Sciences for $26,812. Altogether, the Company owns an 11.8 percent fully-diluted interest in Gel Sciences.

Gel Sciences is a privately-held company, founded in 1992, that has developed a significant body of knowledge in responsive gels based on technology licensed from several institutions including: Massachusetts Institute of Technology, University of Minnesota, University of Cincinnati, and University of Washington. Responsive gels expand or contract, in response to changes in the environment, including changes in: temperature, pressure, pH, solvent, light, and electric and magnetic fields. Responsive gels perform useful functions by absorbing and expelling a liquid (chemical or pharmaceutical) in response to a controlled stimulus. Gel Sciences is pursuing a strategy of developing OEM relationships to accelerate the commercialization of its technology with a particular focus in three areas: separation, control of chemical reactivity, and drug delivery.

Highline Capital Management, LLC.

In June 1995, the Company purchased for $500,000, 24.9 percent of Highline Capital Management, LLC., a Delaware limited liability company. Highline is a non-registered investment company organized by Messrs. Jacob W. Doft and Raji G. Khabbaz to manage third-party assets through private limited partnerships that invest in publicly-traded securities. Mr. Khabbaz had served in previous years as an employee and as a director of Harris & Harris Group.

PHZ Capital Partners Limited Partnership

In September 1995, the Company purchased, for $720,000, a 24.9 percent ownership interest in PHZ Capital Partners Limited Partnership, a Delaware limited partnership. The Company has loaned PHZ $500,000 for one year, which PHZ is investing to establish its initial audited performance record.

PHZ Capital Partners is a non-registered investment company which will manage third-party assets through private limited partnerships investing primarily in publicly-traded securities in both domestic and overseas markets. PHZ is dedicated to creating and implementing disciplined and model-based quantitative trading strategies designed to achieve consistently superior risk-adjusted returns through innovations in financial modeling and trading technology. PHZ will use a balanced integration of expertise in finance, leading edge statistics, and advanced computing to find and exploit the complex relationships existing between financial markets and specific securities.

Harris & Harris Group's investments in Highline and PHZ may be held for longer periods, as potential net free cash flow generating assets, with a view towards increasing Harris & Harris Group's cash flow.

COMPANY BUSINESS AND INVESTMENT OBJECTIVES

The Company is a venture capital investment company, operating as a Business Development Company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"), whose objective is to achieve long-term capital appreciation, rather than current income, from its investments. The Company has invested, and expects to continue to invest, a substantial portion of its assets in private, development stage or start-up companies, and in the development of new technologies in a broad range of industry segments. 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. The Company may also invest to the extent permitted under the 1940 Act, in publicly-traded securities, including high risk securities as well as investment grade securities. The Company may participate in expansion financing and leveraged buyout financing of more mature operating companies as well as other investments. The Company does not seek to invest in any particular industries or categories of investments. As a venture capital company, the Company invests in, and provides managerial assistance to, its private investees which, in its opinion, have significant potential for growth. There is no assurance that the Company's investment objective will be achieved. As a BDC, 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.

Venture Capital Investments

The Company has invested, and expects to continue to invest, a substantial portion of its assets in private, development stage or start-up companies. The Company may initially own 100 percent of the securities of a start-up investment for a period of time and may control such company for a substantial period. In connection with its venture capital investments, the Company may be involved in recruiting management, formulating operating strategies, product development, marketing and advertising, assisting in financial plans, as well as providing management in the initial, start-up stages and establishing corporate goals. The Company may assist in raising additional capital for such companies from other potential investors and may subordinate its own investment to that of other investors. The Company may also find it necessary or appropriate to provide additional capital of its own. The Company may introduce such companies to potential joint venture partners, suppliers and customers. In addition, the Company may assist in establishing relationships with investment bankers and other professionals. The Company may also assist with mergers and acquisitions. The Company may derive income from such companies for the performance of any of the above services. Because of the speculative nature of these investments and the lack of any market for such securities, 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 likely to become successful, but never realize their potential. The Company has been and will continue to be risk seeking rather than risk averse in its approach to its venture capital and other investments.

The Company may control a company for which it has provided venture capital, or it may be represented on the company's board of directors by one or more of its officers or directors, who may also serve as officers of such a company. Particularly during the early stages of an investment, the Company may in effect be conducting the operations of the company. As a venture company emerges from the developmental stage with greater management depth and experience, the Company expects that its role in the company's operations will diminish. The Company seeks to assist each company in establishing its own independent capitalization, management and board of directors. The Company expects to be able to reduce its active involvement in the management of its

investment in those start-up companies that become successful by a liquidity event, such as a public offering or sale of a company.

The Company has invested and expects to continue to invest a substantial portion of its assets in securities that do not pay interest or dividends and that are subject to legal or contractual restrictions on resale that may adversely affect the liquidity and marketability of such securities.

The Company expects to make speculative investments that have limited marketability and a greater risk of investment loss than less speculative issues.

Intellectual Property

The Company believes there is a role for organizations that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property increasingly seek the rewards of entrepreneurial commercialization of their inventions, particularly as governmental, philanthropic and industrial funding for research has become harder to obtain. The Company believes that several factors combine to give it a high value-added role to play in the commercialization of technology: its experience in organizing and developing successful new companies; its willingness to invest its own capital at the highest risk, seed stage; its access to high-grade institutional sources of intellectual property; its experience in mergers, acquisitions and divestitures; its access to and knowledge of the capital markets; and its willingness to do as much of the early work as it is qualified to do.

The Company's form of investment may include: 1) funding of research and development in the development of a technology; 2) obtaining licensing rights to intellectual property or patents; 3) outright acquisition of intellectual property or patents; and 4) formation and funding of companies or joint ventures to commercialize intellectual property. Income from the Company's investments in intellectual property or its development may take the form of participation in licensing or royalty income, fee income, or some other form of remuneration. At some point during the commercialization of a technology, the Company's investment may be transformed into ownership of securities of a development stage or start-up company as discussed above. Investing in intellectual property is highly risky.

Illiquidity of Investments

Many of the Company's investments consist of securities acquired directly from the issuer in private transactions. They may be subject to restrictions on resale or otherwise be illiquid. The Company does not anticipate that there will be any established trading market for such securities. Additionally, many of the securities that the Company may invest in will not be eligible for sale to the public without registration under the Securities Act of 1933, as amended, which could prevent or delay any sale by the Company of such investments or reduce the amount of proceeds that might otherwise be realized therefrom. Restricted securities generally sell at a price lower than similar securities not subject to restrictions on resale. Further, even if a portfolio company or investee registers its securities and becomes a reporting company under the Securities and Exchange Act of 1934, the Company may be considered an insider by virtue of its board representation and would be restricted in sales of such company's securities.

Need for Follow-On Investments

Following its initial investment in investees, the Company has made and anticipates that it will continue to make additional investments in such investees as "follow-on" investments, in order to increase its investment in an investee, and may exercise warrants, options or convertible securities that were acquired in the original financing. Such follow-on investments may be made for a variety of reasons including: 1) to increase the Company's exposure to an investee, 2) to acquire securities issued as a result of exercising convertible securities that were purchased in the original financing, 3) to preserve the Company's proportionate ownership in a subsequent financing, or 4) in an 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 such investments; the Company will have the discretion to make any 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 an investee and the Company's initial investment, or may result in a missed opportunity for the Company to increase its participation in a successful operation.

STATEMENT OF ASSETS AND LIABILITIES

<TABLE>
<CAPTION>

ASSETS

<S>	<C> December 31, 1995	<C> December 31, 1994
Investments, at value (See accompanying schedule ofinvestments and notes). . .	$ 35,929,289	$ 26,034,803
Cash.	364,354	221,457
Receivable from brokers	205,789	4,041,391
Interest receivable	300,718	73,326
Notes receivable.	0	54,664
Taxes receivable (Note 6)	367,929	1,257,903
Prepaid expenses.	86,976	65,220
Other assets.	269,500	295,309
Total assets.	$ 37,524,555	$ 32,044,073

</TABLE>

<TABLE>
<CAPTION>

LIABILITIES & NET ASSETS

<S>	<C>	<C>
Accounts payable and accrued liabilities.	$ 352,129	$ 365,261
Deferred rent	59,887	58,859
Deferred income tax liability (Note 6). .	550,630	309,151
Total liabilities	962,646	733,271
Commitments and contingencies (Note 7)		
Net assets.	$ 36,561,909	$ 31,310,802
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued.	$ 0	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized; 10,333,902 issued and outstanding at 12/31/95 and 9,841,099 issued and 9,136,747 outstanding at 12/31/94. . .	103,339	98,411
Additional paid in capital.	15,691,978	11,543,948
Accumulated net realized income	19,362,249	19,090,309
Accumulated unrealized appreciation of investments, net of deferred tax liability of $698,250 at 12/31/95 and $613,055 at 12/31/94	1,404,343	1,246,124
Treasury stock, at cost (none at 12/31/95; 704,352 at 12/31/94)	0	(557,707)
Reserve for restricted stock award (Note 3)	0	(110,283)
Net assets.	$ 36,561,909	$ 31,310,802
Shares outstanding.	10,333,902	9,136,747

Net asset value per outstanding share . .	$ 3.54	$ 3.43

</TABLE>

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

<TABLE>
<CAPTION>
STATEMENT OF OPERATIONS

<S> <C> <C> <C>

	Year Ended December 31, 1995	Year Ended December 31, 1994	Year Ended December 31, 1993
Investment income:			
Interest from:			
Fixed-income securities. . .	$ 999,869	$ 719,293	$ 276,059
Unaffiliated companies . . .	0	0	128,398
Affiliated companies	11,222	11,913	0
Controlled affiliates. . . .	0	0	6,223
Dividend income-- unaffiliated companies . .	8,436	88,067	28,374
Consulting and administrative fees. . . .	88,209	0	0
Other income.	1,781	1,003	14,896
Total income	1,109,517	820,276	453,950
Expenses:			
Salaries and benefits	1,560,132	2,061,981	1,131,945
Sign-up bonuses	0	1,000,000	0
Total salaries and benefits.	1,560,132	3,061,981	1,131,945
Administration and operations	440,605	424,714	368,241
Professional fees	461,526	421,865	285,772
Depreciation and amortization	161,876	271,430	363,752
Rent.	124,713	114,667	123,685
Directors' fees and expenses.	40,836	52,816	78,984
Custodian fees.	16,453	17,333	0
Other expenses (Note 7) . . .	0	0	700,000
Total expenses	2,806,141	4,364,806	3,052,379
Operating loss before income taxes	(1,696,624)	(3,544,530)	(2,598,429)
Income tax benefit (Note 6) .	597,215	1,265,648	983,804
Net operating loss	(1,099,409)	(2,278,882)	(1,614,625)
Net realized gain (loss) on investments:			
Realized gain (loss) on sale of investments. . . .	2,109,768	(71,396)	35,873,394
Total realized gain (loss) .	2,109,768	(71,396)	35,873,394
Income tax (provision) benefit (Note 6)	(738,419)	168,252	(12,282,824)
Net realized gain on investments.	1,371,349	96,856	23,590,570
Net realized income (loss) . .	271,940	(2,182,026)	21,975,945
Net increase (decrease) in unrealized appreciation on investments:			
Increase as a result of investment sales	337,577	7,955	0
Decrease as a result of			

investment sales	(562,765)	(1,223,026)	(22,078,808)
Increase on investments held.	1,002,347	1,028,961	3,054,485
Decrease on investments held.	(533,745)	(956,624)	0
Total unrealized appreciation (depreciation) on investments	243,414	(1,142,734)	(19,024,323)
Income tax (provision) benefit (Note 6)	(85,195)	256,694	5,940,979
Net increase (decrease) in unrealized appreciation on investments	158,219	(886,040)	(13,083,344)

Net increase (decrease) in net assets from operations:

Total	$ 430,159	$ (3,068,066)	$ 8,892,601
Per outstanding share	$ 0.04	$ (0.34)	$ 1.03

</TABLE>

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

<TABLE>
<CAPITION>

STATEMENT OF CASH FLOWS

<S> <C> <C> <C>

	Year Ended December 31, 1995	Year Ended December 31, 1994	Year Ended December 31, 1993
Cash flows provided (used) by operating activities:			
Net increase (decrease) in net assets resulting from operations .	$ 430,159	$ (3,068,066)	$ 8,892,601
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided (used) by operating activities:			
Net realized and unrealized (gain) loss on investments.	(2,353,182)	1,214,130	(16,849,071)
Deferred income taxes	241,479	(408,655)	(5,640,196)
Depreciation and amortization	161,876	271,430	363,752
Other	40,859	2,451	3,280
Changes in assets and liabilities:			
Receivable from brokers . . .	3,835,602	(4,041,391)	0
Prepaid expenses.	(21,756)	183,643	438,578
Interest receivable	(227,392)	(64,949)	(5,006)
Taxes receivable.	1,184,567	(1,190,637)	(67,266)
Other assets.	(9,372)	153,071	(120,248)
Accounts payable and accrued liabilities.	(43,241)	142,570	(66,596)
Payable for securities purchased.	0	(797,380)	720,530
Deferred rent	10,281	20,560	47,550
Net cash provided (used) by operating activities. .	3,249,880	(7,583,223)	(12,282,092)
Cash (used) provided by investing activity:			
Collection on note receivable	54,664	17,105	15,802
Purchase of fixed assets. . .	(16,409)	(30,188)	(258,269)
Net (purchase) sale of			

short-term investments . .	(6,522,541)	371,496	(10,218,494)
Purchase of investments . . .	(8,246,694)	(30,411,524)	(25,880,690)
Proceeds from sale of investments.	7,207,926	36,321,570	47,582,159
Net cash (used) provided by investing activities. .	(7,523,054)	6,268,459	11,240,508
Cash flows provided by financing activities:			
Purchase of treasury stock. .	(646,430)	0	0
Proceeds from exercise of stock options.	62,500	0	0
Proceeds from private placement of stock (Note 4)	5,000,001	0	0
Proceeds from sale of stock .	0	1,409,007	982,789
Net cash provided by financing activities . . .	4,416,071	1,409,007	982,789
Net increase (decrease) in cash:			
Cash at beginning of period .	221,457	127,214	186,009
Cash at end of period	364,354	221,457	127,214
Net increase (decrease) in cash.	$ 142,897	$ 94,243	$ (58,795)

</TABLE>

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

<TABLE>
<CAPTION>
STATEMENT OF CHANGES IN NET ASSETS

<S>	<C> Year Ended December 31, 1995	<C> Year Ended December 31, 1994	<C> Year Ended December 31, 1993
Changes in net assets from operations:			
Net operating loss.	$ (1,099,409)	$ (2,278,882)	$ (1,614,625)
Net realized gain on investments.	1,371,349	96,856	23,590,570
Net decrease in unrealized appreciation on investments as a result of sales	(146,372)	(933,059)	(15,215,508)
Net increase in unrealized appreciation on investments held	304,591	47,019	2,132,164
Net increase (decrease) in net assets resulting from operations.	430,159	(3,068,066)	8,892,601
Capital stock transactions:			
Purchase of stock	(646,430)	0	0
Restricted stock award (Note 3)	110,283	220,564	220,564
Sales of stock to employees .	0	1,409,007	140,082
Proceeds from exercise of stock options and warrants	62,500	0	842,707
Proceeds from private placement of common stock			

(Note 4)	5,000,001	0	0
Tax benefit of restricted stock award and common stock transactions	294,594	0	0
Net increase from capital stock transactions	4,820,948	1,629,571	1,203,353
Net increase (decrease) in net assets	5,251,107	(1,438,495)	10,095,954
Net assets:			
Beginning of period	31,310,802	32,749,297	22,653,343
End of period	$ 36,561,909	$ 31,310,802	$ 32,749,297

</TABLE>

The accompanying notes are an integral part of these fincial statements.

<TABLE>
<CAPTION>
SCHEDULE OF INVESTMENTS DECEMBER 31, 1995

<S>	<C> Method of Valuation (3)	<C> Shares	<C> Value
Investments in Unaffiliated Companies (9)(10) -- 10.5% of total investments			
Publicly-Traded Portfolio (Common Stock unless noted otherwise)			
Oil and Gas Related -- 1.1%			
CORDEX Petroleums Inc. (1)(5) Argentine oil and gas exploration Class A Common Stock	(C)	4,052,080	$ 381,763
Biotechnology and Healthcare Related -- 5.7%			
Alliance Pharmaceutical Corporation (1)(4). .	(C)	70,000	953,750
Magellan Health Services, Inc. (1)(2)(6). . .	(C)	54,368	1,098,030
Total Publicly-Traded Portfolio (cost: $1,140,399)			$ 2,433,543
Private Placement Portfolio (Illiquid) -- 3.7%			
CORDEX Petroleums Inc. (1)(2)(5) Argentine oil and gas exploration Special Warrants.	(C)	1,667,000	$ 0
Exponential Business Development Company (1)(2)(4) Venture capital partnership focused on early stage companies Limited partnership interest.	(A)	- -	25,000
Princeton Video Image, Inc. (1)(2)(5)(7)(8) Real time sports and entertainment advertising 3.8% of fully-diluted equity.	(B)	24,600	615,000
Warrants: 43,800 at $12.50 expiring 5/96; 6,700 at $2.25 expiring 8/97	(D)	50,500	699,925
Total Private Placement Portfolio (cost: $120,500)			$ 1,339,925
Total Investments in Unaffiliated Companies (cost: $1,260,899). . .			$ 3,773,468

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>
SCHEDULE OF INVESTMENTS DECEMBER 31, 1995

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Private Placement Portfolio in Non-Controlled Affiliates (9) (Illiquid) -- 22.3%			
Dynecology Incorporated (1)(2)(5)(7) --			
Develops various environmental intellectual properties -- Option expiring 12/13/98 to purchase at $15 per share 135,000 shares of Common Stock equaling 18.1% of fully-diluted equity	(D)	- -	$ 60,000
Gel Sciences, Inc. (1)(2)(4)(7) --			
Develops engineered response gels for controlled release systems -- 11.8% of fully-diluted equity			
Warrants - 72,728 at $.55 expiring 02/01/00	(A)	- -	
Common Stock.	(A)	41,250	
Series A Preferred Stock.	(A)	22,275	
Series B Preferred Stock.	(A)	1,181,819	676,812
Harber Brothers Productions, Inc. (1)(2)(4)(7) --			
Finances, produces and markets media products that combine entertainment, music, learning and interactivity -- 21.5% of fully-diluted equity			
Series A Voting Convertible Preferred Stock	(A)	967,500	967,500
Highline Capital Management, LLC. (1)(2)(4)(7) --			
Manages third-party assets -- 24.9% of fully-diluted equity	(A)	- -	500,000
Intaglio, Ltd. (1)(2) --			
Manufactures and markets proprietary decorative tiles and signs -- 20.4% of fully-diluted equity			
Common Stock.	(B)	565,792	2,263,168
Warrants at $4.00 expiring 11/28/01	(A)	166,667	167
Micracor, Inc. (1)(2)(5)(7) --			
Designs and manufactures advanced solid state photonic systems -- 8.9% of fully-diluted equity			
Series F Preferred Stock -- 444,444 shares and 1,199,999			
Warrants at $2.25 expiring 7/20/99.	(A)	- -	1,000,000
Nanophase Technologies Corporation (1)(2)(7) --			
Manufactures and markets inorganic crystals of nanometric dimensions 10.1% of fully-diluted equity			
Series D Convertible Preferred Stock. . . .	(A)	1,162,204	1,162,204
PHZ Capital Partners Limited Partnership (1)(2)(4)(7)			
Manages third-party assets -- 24.9% of fully-diluted equity	(A)	- -	720,000
One year 8% note due 9/22/96.	(A)	$ 500,000	500,000
Sonex International Corporation (1)(2) --			
Manufactures and markets ultrasonic toothbrush for home use 17.7% of fully-diluted equity			
Series A Non-Voting Convertible Preferred Stock	(D)	588,935	146,968
Common Stock.	(D)	34,000	8,485
Total Private Placement Portfolio in Non-Controlled Affiliates (cost: $10,307,519)			$ 8,005,304

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>
SCHEDULE OF INVESTMENTS DECEMBER 31, 1995

<S>	<C> Method of Valuation (3)	<C> Shares	<C> Value
Private Placement Portfolio in Controlled Affiliates (9) (Illiquid) -- 11.1%			
nFX Corporation (1)(2)(5)(7) -- Develops neural-network software			
37.4% of fully-diluted equity			
Series A Voting Convertible Preferred Stock	(B)	1,294,288	$ 2,888,980
Series B Non-Voting Convertible Preferred Stock	(B)	492,800	1,099,979
Total Private Placement Portfolio in Controlled Affiliates (cost: $2,096,720)			$ 3,988,959
U.S. Government Obligations -- 56.1%			
U.S. Treasury Bill dated 7/27/95 due date 01/25/96 -- 4.3% yield	(A)		$ 2,349,377
U.S. Treasury Bill dated 08/17/95 due date 02/15/96 -- 5.4% yield	(A)		5,623,636
U.S. Treasury Bill dated 09/14/95 due date 03/14/96 -- 5.4% yield	(A)		973,660
U.S. Treasury Bill dated 10/12/95 due date 04/11/96 -- 5.5% yield	(A)		1,266,254
U.S. Treasury Bill dated 05/04/95 due date 05/02/96 -- 6.0% yield	(A)		4,728,071
U.S. Treasury Bill dated 12/21/95 due date 06/20/96 -- 5.2% yield	(A)		2,048,667
U.S. Treasury Bill dated 06/29/95 due date 06/27/96 -- 5.0% yield	(A)		3,171,893
Total Investments in U.S. Government Obligations (cost: $20,161,558).			$ 20,161,558
Total Investments -- 100% (cost: $33,826,696). .			$ 35,929,289

</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS DECEMBER 31, 1995

Notes to Schedule of Investments

(1) Represents a non-income producing security. Equity investments that have not paid dividends within the last twelve 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 Method of Valuation A to L.
(4) These investments were made during 1995. Accordingly, the amounts shown on the schedule represent the gross additions in 1995.
(5) No activity occurred in these investments during the year ended December 31, 1995.
(6) Formerly named National Mentor Holding Corp., Magellan Health Services,

Inc. was later acquired by Charter Medical Corporation, which subsequently changed its name to Magellan Health Services, Inc.

(7) These investments are in 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 has not yet commenced its planned principal operations or has commenced such operations but has not realized significant revenue from them.

(8) Formerly Princeton Electronic Billboard, Inc.

(9) Investments in unaffiliated companies consist of investments where the Company owns less than 5% of the investee company. Investments in non-controlled affiliated companies consist of investments where the Company owns more than 5% but less than 25% of the investee company. Investments in controlled affiliated companies consist of investments where the Company owns more than 25% of the investee company.

(10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $1,368,576. The gross unrealized appreciation based on tax cost for these securities is $2,521,205. The gross unrealized depreciation on the cost for these securities is $116,313.

(11) The percentage ownership of each investee disclosed in the Schedule of Investments expresses the potential common equity interest in each such investee. The calculated percentage represents the amount of 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 financial schedule.

FOOTNOTE TO 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; 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, contractual or practical restrictions, including large blocks in relation to trading volume. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation.

Market value for securities traded on securities exchanges or on the NASDAQ National Market System 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 FINANCIAL STATEMENTS

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 July 31, 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Portfolio Investment Valuations. Investments are stated at "fair value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors. See the Asset Valuation Policy Guidelines in the Footnote to Schedule of Investments.

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 first-in, first-out basis for financial reporting and tax basis.

Income Taxes. The Company records income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities have 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 relates to the Company's unrealized appreciation on investments.

Reclassifications. Certain reclassifications have been made to the December 31, 1993 and December 31, 1994 financial statements to conform to the December 31, 1995 presentation.

Estimates by Management. The preparation of the financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31,1995 and 1994, and the reported amounts of revenues and expenses for the three years then ended. Actual results could differ from these estimates.

NOTE 3. STOCK OPTION PLAN AND WARRANTS OUTSTANDING

On August 3, 1989, the shareholders of the Company approved the 1988 Long Term Incentive Compensation Plan. On June 30, 1994, the shareholders of the Company approved various amendments to the 1988 Long Term Incentive Compensation Plan: 1) to conform to the provisions of the Business Development Company regulations under the 1940 Act, which allow for the issuance of stock options to qualified participants; 2) to increase the reserved shares under the amended plan; 3) to call the plan the 1988 Stock Option Plan, as Amended and Restated (the "1988 Plan"); and 4) to make various other amendments. On October 20, 1995, the shareholders of the Company approved an amendment to the

1988 Plan authorizing automatic 20,000 share grants of non-qualified stock options to newly elected non-employee directors of the Company. This amendment is subject to the receipt of an exemptive order from the Securities and Exchange Commission which is presently pending.

Under the 1988 Plan, the number of shares of common stock of the Company reserved for issuance is equal to 20 percent of the outstanding shares of common stock of the Company at the time of grant. However, so long as warrants, options, and rights issued to persons other than the Company's directors, officers, and employees at the time of grant remain outstanding, the number of reserved shares under the 1988 Plan may not exceed 15 percent of the outstanding shares of common stock of the Company at the time of grant, subject to certain adjustments.

At December 31, 1995, there were 2,066,780 shares of common stock reserved for the issuance of stock option awards under the Amended 1988 Plan, of which 1,393,763 were subject to outstanding options and warrants and 673,017 were available for future awards.

The 1988 Plan provides for the issuance of incentive stock options and non-qualified stock options to eligible employees as determined by the Compensation Committee of the Board (the "Committee"), which is composed of four non-employee directors. The Committee also has the authority to construe and interpret the 1988 Plan; to establish rules for the administration of the 1988 Plan; and, subject to certain limitations, to amend the terms and conditions of any outstanding awards. Options may be exercised for up to 10 years from the date of grant at prices not less than the fair market value of the Company's common stock at the date of grant. The 1988 Plan provides that payment by the optionee upon exercise of an option may be made using cash or Company stock held by the optionee.

The following table summarizes changes in outstanding stock options under the 1988
Plan:

<TABLE>
<S> <C> <C>

	Number of Shares	Option Exercise Price Per Share
Outstanding at December 31, 1994	678,102	$1.1875 - $3.750
Issued	742,000	$5.3750 - $5.750
Canceled	0	0
Exercised	370,102	$1.2500 - $2.500
Outstanding at December 31, 1995	1,050,000	$1.1875 - $5.750

</TABLE>

On June 30, 1995, pursuant to the 1988 Plan, the Company issued 136,454 common shares under two restricted stock awards, that vested on such date, net of shares withheld to fulfill tax obligations.

During 1995, the Chairman of the Company exercised a total of 173,349 stock options, at an average price of $1.87, by exchanging 64,703 shares of the Company's stock owned by him.

As of December 31, 1995, there were outstanding warrants to purchase 343,763 shares of common stock at a price of $2.0641 per share expiring in 1999.

NOTE 4. CAPITAL STOCK TRANSACTIONS

On May 18, 1995, the Company completed a $5,000,001 private placement to subsidiaries of American Bankers Insurance Group of 1,075,269 unregistered shares of its common stock at $4.65 per share, which was the average closing price of Harris & Harris Group on the NASDAQ National Market System during the prior ten trading days. As part of the transaction, American Bankers has been

granted certain registration rights and has executed a standstill agreement.

NOTE 5. EMPLOYEE BENEFITS

As of August 15, 1990, the Company entered into non-competition, employment and severance contracts with its Chairman, Charles E. Harris, and with its Executive Vice President, C. Richard Childress, pursuant to which they are to receive compensation in the form of salaries and other benefits. These contracts were amended on June 30, 1992, January 3, 1993, and June 30, 1994. The term of the contracts expires on December 31, 1999.

Base salaries are to be increased annually to reflect inflation and in addition may be increased by such amounts as the Compensation Committee of the Board of Directors of the Company deems appropriate.

In addition, Messrs. Harris and Childress would be entitled, under certain circumstances, to receive severance pay under the employment and severance contracts.

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. During 1995, contributions to the plan that have been charged to operations totaled $46,283.

On June 30, 1994, the Company adopted a plan to provide medical and health coverage 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. The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. During 1995, the Company expensed $16,965 and $13,145 for the plan's service cost and interest expense, respectively. As of December 31, 1995, the Company had a reserve of $206,630 for the plan.

NOTE 6. INCOME TAXES

The Company has not elected tax treatment available to regulated investment companies under Subchapter M of the Internal Revenue Code. Accordingly, for federal and state income tax purposes, the Company is taxed at statutory corporate rates on its income, which enables the Company to offset any future net operating losses against prior years' net income. The Company may carry back operating losses against net income three years and carry forward such losses fifteen years.

For the years ended December 31, 1995, 1994 and 1993, the Company's income tax (benefit) provision was allocated as follows:

<TABLE>

<S>	<C> 1995	<C> 1994	<C> 1993
Investment Operations. . . . . .$	(597,215)	$ (1,265,648)	$ (983,804)
Realized (loss) gain on investments. .	738,419	(168,252)	12,282,824
Increase (decrease) in unrealized appreciation on investments	85,195	(256,694)	(5,940,979)
Total income tax (benefit) provision .$	226,399	$ (1,690,594)	$ 5,358,041

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

Current -- Federal . . . . . .$	(38,319)	$ (1,281,939)	$ 10,998,237
Deferred -- Federal.	264,718	(408,655)	(5,640,196)
Total income tax (benefit) provision .$	226,399	$ (1,690,594)	$ 5,358,041

</TABLE>

The Company's deferred tax liability at December 31, 1995 and 1994 consist of the following:

<TABLE>
<S> <C> <C>

	1995	1994
Unrealized appreciation on investments	$ 698,250	$ 613,055
Restricted Stock	0	(192,992)
Medical retirement benefits	(72,320)	(61,782)
Other	(75,300)	(49,130)
Net deferred income tax liability	$ 550,630	$ 309,151

</TABLE>

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. Rent expense under this lease for the year ended December 31, 1995, was $124,713. Future minimum lease payments in each of the following years are: 1996 -- $154,203; 1997 -- $164,484; 1998 -- $168,768; 1999 -- $176,030; 2000 -- $178,560; thereafter $459,067.

The Company has guaranteed a three-year lease obligation of approximately $21,000 per annum for the office space of one of its investees, Highline Capital Management LLC.

In December 1993, the Company and MIT announced the establishment by the Company of the Harris & Harris Group Senior Professorship at MIT. Prior to the arrangement for the establishment of this Professorship, the Company had made gifts of stock in start-up companies to MIT. These gifts, together with the contribution of $700,000 in cash in 1993, which was expensed by the Company in 1993, were used to establish this named chair.

The Company contributed to MIT securities with a cost basis of $3,280, $20,000 and $20,000 in 1993, 1994, and 1995, respectively. These contributions will be applied to the MIT Pledge at their market value at the time the shares become publicly traded or otherwise monetized in a commercial transaction and are free from restriction as to sale by MIT.

At December 31, 1995, the Company would have to fund additional cash and/or property that would have to be valued at a total of $756,720 by December, 1998, in order for the Senior Professorship to become permanent.

SELECTED PER SHARE DATA AND RATIOS

<TABLE>
<CAPTION>
Per share operating performance:

<S> <C> <C> <C> <C>

	Year Ended December 31, 1995	Year Ended December 31, 1994	Year Ended December 31, 1993	3 Months Ended December 31, 1992
Net asset value, beginning of period	$ 3.43	$ 3.66	$ 2.71	$ 2.90
Net operating loss	(0.11)	(0.25)	(0.19)	(0.02)
Net realized gain (loss)	0.14	0.01	2.75	(0.02)
Net decrease in unrealized appreciation as a result of sales	(0.01)	(0.11)	(1.78)	(0.01)
Net increase (decrease)				

in unrealized appreciation on investments held	0.03	0.01	0.25	(0.14)
Net increase (decrease) from capital stock transactions	0.06	0.11	(0.08)	0
Net asset value, end of period	$ 3.54	$ 3.43	$ 3.66	$ 2.71
Market value per share, end of period	$ 7.875	$ 6.375	$ 8.250	$ 4.375
Deferred income tax per share	$ 0.050	$ 0.030	$ 0.080	$ 0.760
Ratio of expenses to average net assets	8.3%	13.6%	11.3%	2.0%
Ratio of net operating loss to average net assets	3.2%	7.1%	6.0%	6.7%
Investment return based on:				
Stock price	23.5%	(22.7)%	88.6%	49.0%
Net asset value	3.2%	(6.3)%	35.0%	(6.5)%
Portfolio turnover	51.2%	136.4%	118.1%	8.7%
Net assets, end of period	$ 36,561,909	$ 31,310,802	$ 32,749,297	$ 22,653,343
Number of shares outstanding	10,333,902	9,136,747	8,944,828	8,350,999

</TABLE>

The accompanying notes are an integral part of this schedule.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

To Harris & Harris Group, Inc.:

We have audited the accompanying statement of assets and liabilities of Harris & Harris Group, Inc. (a New York corporation) as of December 31, 1995 and 1994, including the schedule of investments as of December 31, 1995, and the related statements of operations, cash flows and changes in net assets for the three years ended December 31, 1995, and the selected per share data and ratios for each of the three years ended December 31, 1995 and the period from commencement of investment company operations (October 1, 1992) to December 31, 1992. These financial statements and selected per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and selected per share data and ratios based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1995 and 1994, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our

audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. as of December 31, 1995 and 1994, the results of its operations, its cash flows and the changes in its net assets for the three years ended December 31, 1995, and the selected per share data and ratios for each of the three years ended December 31, 1995 and the three month period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed in Note 2, the financial statements include investment securities valued at $13,334,188 (35.5 percent of total assets), whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in arriving at its estimate of value of such securities and have inspected the underlying documentation, and in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Arthur Andersen LLP

New York, New York
February 6, 1996

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

Statement of Operations

The Company accounts for its operations under Generally Accepted Accounting Principles for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets from operations," which is the sum of three elements. The first element is "Net operating loss," which is the difference between the Company's income from interest, dividends, and fees and its operating expenses, net of applicable income taxes (or credit). The second element is "Net realized gain (loss) on investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost, net of applicable income taxes (or credit). These two elements are combined in the Company's financial statements and reported as "Net realized income (loss)." 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 of increase (decrease) in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

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

Financial Condition

The Company's total assets and net assets were, respectively, $37,524,555 and $36,561,909 at December 31, 1995 versus $32,044,073 and $31,310,802 at December 31, 1994. Net asset value per share was $3.54 at December 31, 1995, and $3.43 at December 31, 1994.

The Company's financial condition is dependent on the success of its investments. The Company has invested and expects to continue to invest 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. At December 31, 1995, 36 percent of the Company's $37 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was $0.8 million. At

December 31, 1994, 35 percent of the Company's $32 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was $2.1 million. The Company's total investment portfolio also includes cash and marketable securities.

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

<TABLE>

<S>	<C> December 31, 1995	<C> December 31, 1994
Investments, at cost	$ 33,826,696	$ 24,175,624
Unrealized appreciation	2,102,593	1,859,179
Investments, at fair value	$ 35,929,289	$ 26,034,803

</TABLE>

Following an initial investment in a private company, the Company may make additional investments in such investee in order to increase its ownership percentage, to exercise warrants or options that were acquired in a prior financing, to preserve the Company's proportionate ownership in a subsequent financing or in an attempt to preserve or enhance the value of the Company's investment. Such additional investments are referred to as "follow-on" investments. There can be no assurance that the Company will make follow-on investments or have sufficient funds to make additional investments. The failure to make such follow-on investments could jeopardize the viability of the investee company and the corresponding value of the Company's investment in it. Such failure to invest could also result in a missed opportunity for the Company to participate to a greater extent in an investee's successful operations. The Company attempts to maintain adequate liquid capital to make follow-on investments in its private investee portfolio companies. The Company may elect not to make a follow-on investment either because it does not want to increase its concentration of risk or because it prefers other opportunities, even though the follow-on investment opportunity appears attractive.

The following table is a summary of the cash investment changes in the Company's private placement portfolio during the year ended December 31, 1995:

<TABLE>

<S>	<C> Amount
Harber Brothers Productions, Inc. (1)	$ 967,500
Gel Sciences, Inc. (1)(2)	676,812
Highline Capital Management, LLC. (1)	500,000
Intaglio, Ltd. (2)	209,836
Nanophase Technologies Corporation (2)	662,204
PHZ Capital Partners Limited Partnership (1)	1,220,000
	$ 4,236,352

<FN>
<F1>
(1) New investee company
<F2>
(2) Addition to existing investment in an investee company
</FN>
</TABLE>

Results of Operations

Investment Income and 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 investments. The amount of interest income varies based upon the average level of cash funds invested during the year and fluctuations in interest rates. The Company had interest income of $999,869 in 1995, $719,293 in 1994 and $276,059 in 1993. The Company also receives consulting and administrative fees from certain portfolio companies which totaled $88,209 in 1995.

Operating expenses were $2,806,141 in 1995, $4,364,806 in 1994 and $3,052,379 in 1993. Operating expenses in 1994 included sign-up bonuses totaling $1,000,000 to two executives hired by the Company. Most of the Company's operating expenses are related to employee and director compensation, office expenses and legal and accounting fees.

Net operating losses before taxes were $1,696,624, in 1995, $3,544,530 in 1994 and $2,598,429 in 1993. The Company has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments, rather that investment income to defray a significant portion of its operating expenses. Because such sales cannot be predicted with certainty, 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:

Net realized gain on investments before taxes was $2,109,768 in 1995, compared with a loss of $71,396 during 1994 and a gain of $35,873,394 during 1993.

During 1995, the Company sold various publicly-traded securities, realizing a net pre-tax capital gain of $2,109,768.

During 1994, the Company realized a net capital loss of $71,396 from the disposition of various portfolio investments.

During 1993, the Company sold its entire interest in the public market in Molten Metal Technology, Inc., for net sales proceeds of $30,660,754 and realized a capital gain of $30,631,685. In addition, the Company realized a $4,908,908 capital gain from the disposition of its interest in Capital Trust Company, a $841,915 capital gain from the sale of its remaining equity position in Ag Services of America, Inc., and a $357,590 capital loss from the sale of other portfolio investments.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments before taxes increased $243,414 during the year ended December 31, 1995, from $1,859,179 to $2,102,593, owing primarily to increased valuations for CORDEX Petroleums, Inc., Intaglio, Ltd., Alliance Pharmaceutical Corporation and Magellan Health Services, Inc., offset primarily by the decreased valuation of Sonex International Corporation.

Net unrealized appreciation on investments before taxes decreased $1,142,734 during the year ended December 31, 1994, from $3,001,913 to $1,859,179, owing primarily to unrealized losses in Sonex International Corporation and Dynecology Incorporated, offset by an increase in unrealized gain in Magellan Health Services, Inc.

Net unrealized appreciation on investments before taxes decreased $19,024,323 during the year ended December 31, 1993, from $22,026,236 to $3,001,913, owing primarily to the realization of the appreciation in Molten Metal Technology, Inc. and Capital Trust Corporation, as a result of the disposition of the Company's investments in those entities.

Liquidity and Capital Resources

The Company reported total cash, receivables and marketable securities

(the primary measure of liquidity) at December 31, 1995 of $23,833,891 versus $20,465,118 at December 31, 1994 and $25,938,392 at December 31, 1993. The primary factors contributing to increased liquidity include sales of illiquid venture capital investments and sales of the Company's common stock. The primary factors that reduce liquidity include purchasing venture capital securities and funding the Company's corporate overhead expenses. The Company's liquidity was increased on May 18, 1995, by a $5,000,001 private placement of 1,075,269 unregistered shares of the Company's common stock with subsidiaries of American Bankers Insurance Group, Inc. Management believes that its cash, receivables and marketable securities provide it with sufficient liquidity for its operations.

Risks

Pursuant to Section 64(b)(1) of the Investment Company Act of 1940, a Business Development Company is required to describe the risk factors involved in an investment in the securities of such company due to the nature of the company's investment portfolio. There are significant risks inherent in the registrant's venture capital business. The Company has invested and will continue to invest 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. The Company has been and will continue to be 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 does not currently pay, or intend to pay cash dividends. 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.

SHAREHOLDER INFORMATION

Stock Transfer Agent

The Bank of New York, 101 Barclay Street, Suite 22W, New York, New York 10286 (Telephone (800) 524-4458, Attention: Ms. Diane Ajjan) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Market Prices

The Company's common stock is traded on the NASDAQ National Market System under the NASDAQ symbol "HHGP." The following table sets forth the range of the high and low selling price of the Company's shares during each quarter of the last two years, as reported by the National Association of Securities Dealers, Inc.

<TABLE>

<S>	<C>	<C>
1995 Quarter Ending	Low	High
March 31	$4.875	$6.375
June 30	$4.375	$5.125
September 30	$4.625	$5.875
December 31	$4.375	$8.125
1994 Quarter Ending	Low	High

March 31	$7.000	$8.875
June 30	$5.500	$7.875
September 30	$5.125	$7.125
December 31	$5.125	$6.500

</TABLE>

Shareholders

As of February 27, 1996, there were approximately 181 holders of record of the Company's common stock which, the Company has been informed, hold the Company's common stock for approximately 2,000 beneficial owners.

Annual Meeting

The Annual Meeting of Shareholders of Harris & Harris Group, Inc., will be held on Thursday, April 11, 1996, at 2:00 p.m. at the Princeton Club, 15 West 43rd Street, New York, New York.

HARRIS & HARRIS GROUP, INC. OFFICERS AND DIRECTORS

OFFICERS

* Charles E. Harris, Chairman and Chief Executive Officer. For additional information about Mr. Harris, please see the Directors' biographical information section below.

Robert B. Schulz, age 38, joined the Company, in March 1994, as President and Chief Operating Officer and has served as Chief Compliance Officer since November 1994. From 1984, until joining the Company, he was employed by CS First Boston Corporation, most recently as a Director in the Insurance Group. Mr. Schulz received his M.B.A. degree from Columbia University in 1983. Prior to attending Columbia University, he was employed as a research engineer in the Alternate Energy Group of Chevron Research Company and as a project manager in Dynecology, Incorporated, a high-technology, family-owned engineering research firm. He graduated from the Massachusetts Institute of Technology in 1979 with his B.S. and M.S. degrees in chemical engineering.

C. Richard Childress, age 44, has served as Executive Vice President of the Company since February 1994 and as Chief Financial Officer since June 1994. Mr. Childress has served in various executive capacities as a senior officer of the Company since February 1986. He served as managing general partner of Consolidating Banks Fund, an investment partnership, from December 1983 to December 1985, before joining the Company. In addition to such duties, he was self-employed as a consultant from January 1983 to February 1986. He is a certified public accountant and began his career with Coopers & Lybrand. He received his undergraduate degree from Northern Arizona University.

David C. Johnson, Jr., age 39, joined the Company in February 1994, as a Senior Vice President and has served as Executive Vice President since January 1995. From 1984, until joining the Company, Mr. Johnson served as a Vice President of Salomon Brothers Inc. He received his M.B.A. from The Darden School at the University of Virginia in 1984 and his undergraduate degree from the University of North Carolina at Chapel Hill in 1978.

Rachel M. Pernia, age 36, has served since January 1992 as a Vice President and Controller of the Company and as Treasurer since November 1994. From 1988 until Ms. Pernia joined the Company, she was employed as Assistant Controller for Cellcom Corp. From 1985 through 1988, she was employed as a senior corporate accountant by Bristol-Myers Squibb Company. She is a graduate of Rutgers University and is a certified public accountant.

Susan Neissa-Carey, age 23, has served as Secretary of the Company since July 1995. Ms. Carey joined the Company in January of 1995. She graduated from Villanova University in 1994.

DIRECTORS

Dr. C. Wayne Bardin, age 61, was elected to the Company's Board of Directors in December 1994. Dr. Bardin's professional appointments have included: Vice President, The Population Council; Professor of Medicine, Chief of the Division of Endocrinology, The Milton S. Hershey Medical Center of Pennsylvania State University; and Senior Investigator, Endocrinology Branch, National Cancer Institute. Dr. Bardin also serves as a consultant to several pharmaceutical companies. He has directed basic and clinical research leading to over 450 publications and patents. He has negotiated 15 licensing and manufacturing agreements. He is currently directing clinical R&D under 18 INDs filed with the U.S. FDA. Dr. Bardin has been appointed to the editorial boards of 15 journals. He has also served on national and international committees and boards for NIH, WHO, The Ford Foundation, and numerous scientific societies. Dr. Bardin received a B.A. from Rice University; a M.S. and M.D. from Baylor University and a Ph.D. from the University of Caen.

G. Morgan Browne, age 60, was elected to the Company's Board of Directors in June 1992. Since 1985, Mr. Browne has been Administrative Director of the Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. In prior years, he was active in the management of numerous scientifically-based companies as an individual consultant or as an associate of Laurent Oppenheim Associates, Industrial Management Consultants. He is a director of Oncogene Science, Inc. (principally engaged in drug discovery based on gene transcription), a director of the New York Biotechnology Association, and a director and Treasurer of the Long Island Research Institute. He is a graduate of Yale University and attended New York University Graduate School of Business.

Harry E. Ekblom, age 67, has been a director of the Company since 1984. Mr. Ekblom currently serves as Vice Chairman of A.T. Hudson & Co., Inc. and President of Harry E. Ekblom & Co., Inc., each of which is engaged in the business of management consulting. He became President of Harry E. Ekblom & Co., Inc. in 1984 and joined A.T. Hudson in March 1985. Before 1984, he was employed by European American Bank as the Chairman of its Board of Directors and Chief Executive Officer. Mr. Ekblom is a director of Pan Energy Corp. (principally engaged in interstate transmission of natural gas) and The Commercial Bank of New York. He is a graduate of Columbia College and the New York University School of Law, a member of the New York Bar, and holds honorary degrees from Hofstra University and Pace University.

* Charles E. Harris, age 53, has been a director of the Company and Chairman of its Board of Directors since April 1984. He has served as Chief Executive Officer of the Company since July 1984. From April 1990 to August 1991, he served as Chairman of publicly-owned Ag Services of America, Inc., in which the Company then held an equity interest. From its formation in November 1989 until June 1990, he served as Chairman and Chief Executive Officer of publicly-owned Molten Metal Technology, Inc., which the Company co-founded and in which the Company then held an equity interest. From July 1986 to January 1989, he served as Chairman of publicly-owned Re Capital Corporation, which the Company founded and in which the Company then held an equity interest. From July 1984 to July 1985, he served as a director and was the control person of publicly-owned Alliance Pharmaceutical, which the Company founded and in which the Company then held an equity interest. Prior to 1984, he was Chairman of Wood, Struthers and Winthrop Management Corp., the investment advisory subsidiary of Donaldson, Lufkin & Jenrette. Mr. Harris was a member of the Advisory Panel for the Congressional Office of Technology Assessment. He is a graduate of Princeton University and the Columbia University Graduate School of Business.

Charles F. Hays, age 49, joined the Board as a director in March 1995. Since 1993, Mr. Hays has been Senior Vice President, Chief Financial and Administrative Officer of Mid Ocean Reinsurance Company Ltd. His positions have included: Managing Director & Chief Financial and Administrative Officer of Marsh & McLennan, Incorporated, from 1984 to 1993; Vice President and Treasurer of the Guy Carpenter & Company subsidiary of Marsh & McLennan Companies, from 1979 to 1984; Assistant Vice President of Corporate Development of Marsh & McLennan Companies, from 1977 to 1979; Assistant Treasurer of Morgan Guaranty Trust Company, from 1975 to 1977; and Deputy Director of AmerAsian

Group of Companies, from 1971 to 1972. He is a graduate of the University of Kansas and Stanford University Graduate School of Business.

Jon J. Masters, age 58, was elected to the Company's Board of Directors in February 1992. Since 1976, he has been a member of the law firm of Christy & Viener, which he co-founded. Mr. Masters is a graduate of Princeton University and Harvard Law School.

Glenn E. Mayer, age 70, has been a director of the Company since 1981. In December 1991, Mr. Mayer joined, as a Senior Vice President, the Investment Banking division of Reich & Company. Reich & Co. is now a division of Fahnestock & Company, Inc., a member firm of the New York Stock Exchange. For fifteen years prior to that, he was employed by Jesup & Lamont Securities Co. and its successor firms, in the Corporate Finance department. Mr. Mayer is a graduate of Indiana University.

William R. Polk, age 67, has been a director of the Company since August 1988. For the last seven years, Mr. Polk has been an author and self-employed consultant. He is the former President of the Adlai Stevenson Institute of International Affairs, a former member of the Policy Planning Council of the United States Department of State, and a former Professor of the University of Chicago and Harvard University. Mr. Polk is a graduate of Harvard University and Oxford University.

James E. Roberts, age 50, was elected to the Company's Board of Directors in June 1995. Since May 1995, Mr. Roberts has been Vice Chairman of Trenwick America Reinsurance Corporation. During the nine years prior to that Mr. Roberts held the following positions at Re Capital Corporation: President and Chief Executive Officer, from 1992 to 1995; President and Chief Operating Officer, 1991 to 1992; Director since 1989 and Senior Vice President, 1986 to 1991; President and Chief Executive Officer of the Company's principal operating subsidiary, Re Capital Reinsurance Company from 1991 to 1995. Mr. Roberts has also served as Senior Vice President and Chief Underwriting Officer of North Star Reinsurance Company, from 1979 to 1986; Vice President of Rollins Burdick Hunter of New York, Inc., 1977 to 1979; Secretary of American Home Assurance/National Union Insurance Group of American International Group, Inc., 1973 to 1977; and commercial casualty underwriter at Continental Insurance Company, 1972 to 1973. Mr. Roberts is a graduate of Cornell University.

* Charles E. Harris is an "interested person" of the Company, as defined in the Investment Company Act of 1940, as an owner of more than five percent of the Company's stock, as a control person and as an officer of the Company.

Officers
Charles E. Harris
Chairman and Chief Executive Officer

Robert B. Schulz
President, Chief Operating Officer and Chief Compliance Officer

C. Richard Childress
Executive Vice President and Chief Financial Officer

David C. Johnson, Jr.
Executive Vice President

Rachel M. Pernia
Vice President, Treasurer and Controller

Susan Neissa-Carey
Secretary

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Stock Listing
NASDAQ National Market
Symbol: HHGP

Auditors
Arthur Andersen LLP

General Counsel
Skadden, Arps, Slate, Meagher & Flom

Custodian
J.P. Morgan & Co. Incorporated

Registrar and Transfer Agent
The Bank of New York