SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1996

or

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

For the transition period from_________to_________

Commission File Number 0-11576

Harris & Harris Group, Inc.
(Exact name of registrant as specified in its charter)

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

One Rockefeller Plaza
Suite 1430
New York, New York 10020
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of common stock, par value $.01 per share, outstanding on April 30, 1996 was 10,383,902.

Harris & Harris Group, Inc.
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PART II. OTHER INFORMATION

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

Item 1. Financial Statements

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

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

STATEMENT OF ASSETS AND LIABILITIES

<TABLE>
<CAPTION>
ASSETS

<S>	<C> March 31, 1996 (Unaudited)	<C> December 31, 1995 (Audited)
Investments, at value (See accompanying schedule of investments and notes). . . .	$ 33,925,572	$ 35,929,289
Cash.	478,410	364,354
Receivable from brokers.	3,011,374	205,789
Interest receivable.	308,730	300,718
Taxes receivable	574,710	367,929
Prepaid expenses	71,127	86,976
Other assets	311,597	269,500
	------------	------------
Total assets	$ 38,681,520	$ 37,524,555
	============	============

</TABLE>

<TABLE>
<CAPTION>
LIABILITIES & NET ASSETS

<S>	<C>	<C>
Accounts payable and accrued liabilities. .	$ 372,800	$ 352,129
Deferred rent	57,573	59,887
Deferred income tax liability (Note 5). . .	981,757	550,630
	------------	------------
Total liabilities	1,412,130	962,646
	------------	------------
Commitments and contingencies (Note 6)		

Net assets	$ 37,269,390	$ 36,561,909
	============	============
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; 10,383,902 issued and outstanding at 3/31/96 and 10,333,902 issued and outstanding at 12/31/95	103,839	103,339
Additional paid in capital	15,851,166	15,691,978
Accumulated net realized income	19,114,966	19,362,249
Accumulated unrealized appreciation of investments, net of deferred tax liability of $1,126,367 at 3/31/96 and $698,250 at 12/31/95	2,199,419	1,404,343
	------------	------------
Net assets	$ 37,269,390	$ 36,561,909
	============	============
Shares outstanding	10,383,902	10,333,902
	------------	------------
Net asset value per outstanding share	$ 3.59	$ 3.54
	============	============

</TABLE>

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

STATEMENT OF OPERATIONS
(UNAUDITED)

<TABLE>
<S> <C>

	Three Months Ended March 31, 1996
Investment income:	
Interest from:	
Fixed-income securities	$ 227,338
Affiliated companies	10,000
Dividend income--Unaffiliated companies	4,090
Other income	24,896

Total income	266,324
Expenses:	
Salaries and benefits	396,631
Administration and operations	122,212
Professional fees	126,905
Depreciation and amortization	10,000
Rent	38,346
Directors' fees and expenses	12,400
Custodian fees	3,116

Total expenses	709,610

Operating loss before income taxes	(443,286)
Income tax benefit (Note 5)	154,130

Net operating loss	(289,156)
Net realized gain on investments:	
Realized gain on sale of investments	64,420

Total realized gain	64,420
Income tax provision (Note 5)	(22,547)

Net realized gain on investments	41,873

Net realized loss.	(247,283)
Net increase (decrease) in unrealized appreciation on investments:	
Decrease on investments held	(96,999)
Increase on investments held	1,320,193

Total unrealized appreciation on investments . . .	1,223,194
Income tax provision (Note 5).	(428,118)

Net increase in unrealized appreciation on investments	795,076

Net increase in net assets from operations:	
Total.	$ 547,793
	============
Per outstanding share.	$ 0.05
	============

</TABLE>

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

STATEMENT OF CASH FLOWS
(UNAUDITED)

<TABLE>
<S> <C>

	Three Months Ended March 31, 1996
Cash flows from operating activities:	
Net increase in net assets resulting from operations.	$ 547,793
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided used in operating activities:	
Net realized and unrealized gain on investments. .	(1,287,614)
Deferred income taxes.	431,127
Depreciation	10,000
Other.	(2,314)
Changes in assets and liabilities:	
Receivable from brokers.	(2,805,585)
Prepaid expenses	15,849
Interest receivable.	(8,012)
Taxes receivable	(134,593)
Other assets	(27,400)
Accounts payable and accrued liabilities	20,671
Purchase of fixed assets	(24,697)

Net cash used in operating activities.	(3,264,775)
Cash flows from investing activities:	
Net sale of short-term investments	10,306,640
Purchase of investments.	(13,478,458)
Proceeds from sale of investments.	6,463,149

Net cash provided by investing activities.	3,291,331
Cash flows from financing activities:	
Proceeds from exercise of stock options.	87,500

Net cash provided by financing activities.	87,500

Cash at beginning of period.	364,354
Cash at end of period.	478,410

Net increase in cash	$ 114,056
	============
Supplemental disclosures of cash flow information:	
Income taxes paid.	$ 0

</TABLE>

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

STATEMENT OF CHANGES IN NET ASSETS
(UNAUDITED)

<TABLE>
<S> <C>

	Three Months Ended March 31, 1996
Changes in net assets from operations:	
Net operating loss.	$ (289,156)
Net realized gain on investments.	41,873
Net increase in unrealized appreciation on investments held.	795,076

Net increase in net assets resulting from operations.	547,793
Capital stock transactions:	
Proceeds from exercise of stock options	87,500
Tax benefit of exercise of stock options	72,188

Net increase from capital stock transactions.	159,688

Net increase in net assets	707,481
Net assets:	
Beginning of period	36,561,909

End of period	$ 37,269,390
	============

</TABLE>

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

SCHEDULE OF INVESTMENTS MARCH 31, 1996
(UNAUDITED)

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

	Method of Valuation (3)	Shares	Value
Investments in Unaffiliated Companies (9) -- 15.9% of total investments			

Publicly-Traded Portfolio (Common Stock unless noted otherwise)			
Oil and Gas Related -- 1.1%			
CORDEX Petroleums Inc. (1)(5)			
Argentinian oil and gas exploration			
Class A Common Stock	(C)	4,052,080	$ 367,490
Biotechnology and Healthcare Related -- 6.9%			
Alliance Pharmaceutical Corporation (1)(5)	(C)	70,000	1,216,250
Magellan Health Services, Inc.(1)(2)(5)(6)	(C)	54,368	1,121,340
Mining Companies -- 0.6%			
Cambior, Inc (1)(4).	(C)	14,500	195,750

Total Publicly-Traded Portfolio (cost: $1,338,154).			$ 2,900,830
Private Placement Portfolio (Illiquid) -- 7.3%			
CORDEX Petroleums Inc. (1)(2)(5)			
Argentinian oil and gas exploration			
Special Warrants	(C)	1,667,000	$ 0
Exponential Business Development Company			
(1)(2)(5) Venture capital partnership			
focused on early stage companies			
Limited partnership interest	(A)	- -	25,000
Princeton Video Image, Inc. (1)(2)(7)(8)			
Real time sports and entertainment			
advertising			
3.6% of fully-diluted equity	(B)	24,600	861,000
Warrants: 43,800 at $12.50 expiring 5/96;			
6,700 at $2.25 expiring 8/97	(D)	50,500	1,204,925
PureSpeech, Inc. (1)(2)(4)(7)			
Software development company specializing			
in innovative speech recognition technology			
3.7% of fully-diluted equity			
Series A Convertible Preferred Stock . . .	(A)	76,190	399,998

Total Private Placement Portfolio (cost: $520,498).			$ 2,490,923

Total Investments in Unaffiliated Companies (cost: $1,858,652)			$ 5,391,753

</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS MARCH 31, 1996
(UNAUDITED)

<TABLE>

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Private Placement in Non-Controlled Affiliates (Illiquid) -- 24.5%			
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)	- -	$ 55,000
Gel Sciences, Inc. (1)(2)(5)(7) -- Develops			
engineered response gels for controlled			
release systems -- 9.5% of fully-diluted equity			
Warrants -- 72,728 at $.55 expiring 01/01/00 .	(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)(5)(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. (2)(5)(7) -- Organizes and manages investment partnership			
24.9% of fully-diluted equity.	(A)	- -	500,000
Intaglio, Ltd. (1)(2)(5) -- 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)(7) -- Designs and manufactures advanced solid state photonic systems -- 8.6% 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
10% Convertible Note	(D)	$ 100,000	104,860
Nanophase Technologies Corporation (1)(2)(5)(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)(7)			
Organizes and manages investment partnership .	(B)	- -	1,000,000
20.0% of fully-diluted equity			
One year 8% note due 9/22/96	(A)	$ 500,000	500,000
Sonex International Corporation (1)(2) -- Manufactures and markets an ultrasonic toothbrush for home use 17.6% of fully-diluted equity			
Series A Non-voting Convertible Preferred Stock	(D)	588,935	73,485
Common Stock	(D)	34,000	4,242

Total Private Placement Portfolio in Non-Controlled Affiliates (cost: $10,410,521)			$ 8,307,438

</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS MARCH 31, 1996
(UNAUDITED)

<TABLE>

<S>	<C> Method of Valuation (3)	<C> Shares	<C> Value
Private Placement Portfolio in Controlled Affiliates (Illiquid) -- 16.0%			
Genomica Corporation (1)(2)(4)(7)(10) -- Develops software that enables the study of complex genetic diseases -- 29.2% of fully-diluted equity			
Series A Convertible Preferred Stock	(A)	1,660,200	$ 1,000,304
Common Stock	(A)	199,800	
nFX Corporation (1)(2)(7) -- Develops neural-network software 37.8% of fully-diluted equity			
Series A Voting Convertible Preferred Stock .	(B)	1,294,288	2,888,980
Series B Voting Convertible Preferred Stock .	(B)	689,920	1,539,979

Total Private Placement Portfolio in Controlled Affiliates (cost: $3,537,024)			$ 5,429,263

U.S. Government Obligations -- 43.6%

U.S. Treasury Note dated 03/01/93 due date 02/28/98 -- 5.8% yield. . . . . (C)		$ 4,942,200
U.S. Treasury Bill dated 02/15/96 due date 08/15/96 -- 5.1% yield . . . . (A)		5,126,847
U.S. Treasury Bill dated 05/14/95 due date 05/02/96 -- 5.2% yield . . . . (A)		4,728,071

Total Investments in U.S. Government Obligations (cost: $14,793,589)		$ 14,797,118

Total Investments -- 100% (cost: $30,599,786)		$ 33,925,572
		============

</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS MARCH 31, 1996
(UNAUDITED)

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 Methods of Valuation A to L.
4. These investments were made during 1996.
5. No activity occurred in these investments during the three months ended March 31, 1996.
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. Genomica Corporation was founded by Harris & Harris Group, Inc., Cold Spring Harbor Laboratory and Falcon Technology Partners, LP. Mr. G. Morgan Browne serves on the Board of Harris & Harris Group, Inc., and is Administrative Director of Cold Spring Harbor Laboratory.
11. The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $3,425,424. The gross unrealized appreciation based on tax cost for these securities is $3,556,010. The gross unrealized depreciation on the cost of these securities is $130,586.
12. 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 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, as amended (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: l) 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) material 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. 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; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day 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 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 (UNAUDITED)

NOTE 1. THE COMPANY

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

The Company elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From 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 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 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 expense 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, 1995 financial statements to conform to the March 31, 1996 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 March 31, 1996 and December 31, 1995, and the reported amounts of revenues and expenses for the three months ended March 31, 1996. 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.

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 March 31, 1996, there were 2,076,780 shares of common stock reserved for the issuance of stock option awards under the Amended 1988 Plan, of which 1,403,763 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, 1995	1,050,000	$ 1.1875 - $5.7500
Issued	60,000	$6.1875
Canceled	0	0
Exercised	50,000	$1.7500
Outstanding at March 31, 1996	1,060,000	$ 1.1875 - $6.1875

</TABLE>

As of March 31, 1996, 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. 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 Board of Directors of the Company (the "Board") deems appropriate.

In addition, Messrs. Harris and Childress are 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. The Company's contributions to the plan are determined by the Compensation Committee in the fourth quarter.

On June 30, 1994, the Company adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided a reserve of $206,630 as of December 31, 1995 for estimated future benefits under the described plan.

NOTE 5. 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 three months ended March 31, 1996, the Company's income tax provision was allocated as follows:

<TABLE>
<S> <C>

	Three months ended 3/31/96
Investment operations.	($ 154,130)
Realized gain on investments	22,547
Increase in unrealized appreciation on investments	428,118

Total income tax provision.	$ 296,535
	=========

The above tax provision consists of the following:

	Three months ended 3/31/96
Current -- Federal.	($ 134,593)
Deferred -- Federal	431,128

Total income tax provision.	$ 296,535
	=========

</TABLE>

The effective tax rate differs from the Federal statutory rate primarily as a result of tax deductible expenses not allowed for book.

The Company's deferred tax liability at March 31, 1996 consists of the following:

Unrealized appreciation on investments. . .	$ 1,126,367
Medical retirement benefits	(72,320)
Other	(72,290)

Net deferred income tax liability	$ 981,757
	===========

The exercise of nonqualified stock options and certain warrants give rise to compensation which is includable in the taxable income of recipients and deductible by the Company for federal and state income tax purposes. Compensation resulting from increases in the fair market value of the Company's common stock subsequent to the date of grant of the applicable exercised stock options and warrants is not recognized, in accordance with Accounting Principles Board Opinion No. 25, as an expense for financial accounting purposes.

NOTE 6. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for its office space. Rent expense under this lease for the three months ended March 31, 1996, amounted to $38,346. Future minimum lease payments in each of the following years are: 1997 -- $164,484; 1998 -- $168,768; 1999 -- $176,030; 2000 -- $178,560; 2001 -- $178,560; thereafter $280,506.

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 $3,280, $20,000 and $20,000 in 1993, 1994, and 1995, respectively. These amounts represent the cost basis to the Company of the securities donated. 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 March 31, 1996, 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.

Item 2. 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, $38,681,520 and $37,269,390 at March 31, 1996 versus $37,524,555 and $36,561,909 at December 31, 1995. Net asset value per share was $3.59 at March 31, 1996, versus $3.54 at December 31, 1995.

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 or have no history of operations. At March 31, 1996, 42 percent of the Company's $39 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was $1.7 million. At December 31, 1995, 36 percent of the Company's $38 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was $0.8 million.

A summary of the Company's investment portfolio is as follows:
<TABLE>
<S> <C> <C>

	March 31, 1996	December 31, 1995
Investments, at cost	$ 30,599,786	$ 33,826,696
Unrealized appreciation	3,325,786	2,102,593
Investments, at fair value	$ 33,925,572	$ 35,929,289

</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 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 Company's investment or could 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 be in a position 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 if 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 three months ended March 31, 1996:

	Amount
PureSpeech, Inc. (1)	$ 399,998
Genomica, Inc. (1)	1,000,304
nFX Corporation (2)	440,000
Micracor, Inc. (2)	103,000
	$ 1,943,302

(1) New investee company
(2) Addition to existing investment in an investee company

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 $227,338 for the three months ended March 31, 1996. The Company also received consulting and administrative fees from certain portfolio companies which totaled $24,896.

Operating expenses were $709,610 for the three months ended March 31, 1996. 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 $443,286 for the three months ended March 31, 1996. 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 Portfolios Securities:

During the three months ended March 31, 1996, the Company sold various public securities realizing a net gain of $64,420.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments increased during the three months ended March 31, 1996, from $2,102,593 to $3,325,786, owing primarily to increased valuations for Princeton Video Image, Inc., PHZ Capital Partners and Alliance Pharmaceutical Corp., offset by the decreased valuation of Sonex International Corporation and Dynecology, Inc.

Liquidity and Capital Resources

The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at March 31, 1996 of $22,071,694, versus $23,833,891 at December 31, 1995. 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 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 that potential. The Company has and shall continue to be risk seeking rather than risk adverse in its approach to its 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 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Changes in Securities
None

Item 3. Defaults Upon Senior Securities
None

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

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
(a) See Exhibit Index for Exhibits to the Form 10Q.
(b) None

EXHIBIT INDEX

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

27. Financial Data Schedule

SIGNATURE

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

Harris & Harris Group, Inc.

By:/s/____________________________
Rachel M. Pernia, Vice President,
Treasurer, Controller and Principal
Accounting Officer

Date: May 15, 1996

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