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 September 30, 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 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 November 13, 1996 was 10,564,889.

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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.

<TABLE>
<CAPTION>

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

<S>	<C> September 30, 1996 (Unaudited)	<C> December 31, 1995 (Audited)
Investments, at value (See accompanying schedule of investments and notes). . .	$ 37,442,714	$ 35,929,289
Cash.	172,916	364,354
Receivable from brokers	0	205,789
Interest receivable	61,432	300,718

Taxes receivable (Note 5)	1,040,388	367,929
Prepaid expenses	28,688	86,976
Other assets	263,419	269,500
Total assets	$ 39,009,557	$ 37,524,555

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	$ 330,465	$ 352,129
Deferred rent	63,228	59,887
Deferred income tax liability (Note 5)	1,418,072	550,630
Total liabilities	1,811,765	962,646
Commitments and contingencies (Note 6)		
Net assets	$ 37,197,792	$ 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; 10,442,682 issued and outstanding at 9/30/96 and 10,333,902 issued and outstanding at 12/31/95	104,427	103,339
Additional paid in capital	15,850,578	15,691,978
Accumulated net realized income	18,229,445	19,362,249
Accumulated unrealized appreciation on investments, net of deferred taxes of $1,564,635 at 9/30/96 and $698,250 at 12/31/95	3,013,342	1,404,343
Net assets	$ 37,197,792	$ 36,561,909
Shares outstanding	10,442,682	10,333,902
Net asset value per outstanding share	$ 3.56	$ 3.54

</TABLE>

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

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS
(UNAUDITED)

<S>	<C> Three Months Ended 9/30/96	<C> Three Months Ended 9/30/95	<C> Nine Months Ended 9/30/96	<C> Nine Months Ended 9/30/95
Investment income:				
Interest from:				
Fixed-income securities	$ 194,570	$ 262,015	$ 625,434	$ 754,706
Affiliated companies	9,556	0	29,667	0
Dividend income--				
Unaffiliated companies	0	0	8,024	8,436
Other income	13,440	0	49,146	2,786
Total income	217,566	262,015	712,271	765,928

Expenses:

Salaries and benefits	367,772	376,545	1,152,078	1,137,926
Administration and operations	130,061	91,347	384,379	305,504
Consulting fees	89,522	29,132	335,225	118,344
Professional fees	42,686	103,895	139,963	164,773
Depreciation and amortization	14,500	15,000	43,187	155,980
Rent	41,784	29,797	119,628	87,391
Directors' fees and expenses	20,132	12,907	47,203	25,793
Custodian fees	2,929	3,326	9,040	9,704
Total expenses	709,386	661,949	2,230,703	2,005,415
Operating loss before income taxes	(491,820)	(399,934)	(1,518,432)	(1,239,487)
Income tax benefit (Note 5)	171,181	103,523	524,458	690,449
Net operating loss	(320,639)	(296,411)	(993,974)	(549,038)
Net realized (loss) gain on investments:				
Realized (loss) gain on sale of investments	(51,277)	200,895	(213,584)	(4,589)
Total realized (loss) gain	(51,277)	200,895	(213,584)	(4,589)
Income tax benefit (provision) (Note 5)	17,947	(70,313)	74,754	1,606
Net realized (loss) gain on investments	(33,330)	130,582	(138,830)	(2,983)
Net realized loss	(353,969)	(165,829)	(1,132,804)	(552,021)
Net increase (decrease) in unrealized appreciation on investments:				
Decrease on investments held	(518,112)	(709,516)	(1,409,833)	(456,185)
Increase on investments held	93,404	856,888	3,885,217	1,778,984
Sub-total	(424,708)	147,372	2,475,384	1,322,799
Increase as a result of investment sales	37,831	0	0	291,277
Total (decrease) increase in unrealized appreciation on investments	(386,877)	147,372	2,475,384	1,614,076
Income tax provision (benefit) (Note 5)	135,406	(51,610)	(866,385)	(564,927)
Net increase (decrease) in unrealized appreciation on investments	(251,471)	95,762	1,608,999	1,049,149
Net increase (decrease) in net assets from operations:				
Total	$ (605,440)	$ (70,067)	$ 476,195	$ 497,128
Per outstanding share	$ (0.06)	$ (0.00)	$ 0.05	$ 0.05

</TABLE>

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

<TABLE>

<CAPTION>

STATEMENT OF CASH FLOWS
(UNAUDITED)

<S>	<C> Nine Months Ended 9/30/96	<C> Nine Months Ended 9/30/95
Cash flows provided (used) by operating activities:		
Net increase in net assets resulting from operations.	$ 476,195	$ 497,128
Adjustments to reconcile increase in net assets from operations to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(2,261,800)	(1,609,487)
Deferred income taxes	867,442	733,583
Depreciation and amortization	43,187	155,980
Other	1,448	23,340
Changes in assets and liabilities:		
Receivable from brokers	205,789	3,145,021
Prepaid expenses.	58,288	40,690
Interest receivable	239,286	(244,998)
Taxes receivable.	(600,271)	338,965
Other assets.	(4,292)	(95,335)
Accounts payable and accrued liabilities. . .	(21,664)	(53,983)
Collection on note receivable	0	54,664
Purchase of fixed assets.	(32,815)	(6,594)
	------------	------------
Net cash provided (used) by operating activities	(1,029,207)	2,978,974
Cash flows provided (used) by investing activities:		
Net sale (purchase) of short-term investments and marketable securities	5,156,883	(3,794,588)
Investment in private placements.	(4,406,614)	(3,649,540)
	------------	------------
Net cash provided (used) by investing activities	750,269	(7,444,128)
Cash flows provided (used) by financing activities:		
Purchase of stock	0	(646,430)
Proceeds from exercise of stock options	87,500	62,500
Proceeds from private placement of common stock	0	5,000,001
	------------	------------
Net cash provided by financing activities	87,500	4,416,071
Net decrease in cash:		
Cash at beginning of period	364,354	221,457
Cash at end of period	172,916	172,374
	------------	------------
Net decrease in cash.	$ (191,438)	$ (49,083)
	============	============
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 57,234	$ 8,323
	============	============

</TABLE>

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<TABLE>
<CAPTION>

STATEMENT OF CHANGES IN NET ASSETS
(UNAUDITED)

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

	Three Months Ended 9/30/96	Three Months Ended 9/30/95	Nine Months Ended 9/30/96	Nine Months Ended 9/30/95
Changes in net assets from operations:				
Net operating loss. .	$ (320,639)	$ (296,411)	$ (993,974)	$ (549,038)
Net realized (loss) gain on investments	(33,330)	130,582	(138,830)	(2,983)
Net (decrease) increase in unrealized appreciation on investments held. .	(251,471)	95,762	1,608,999	1,049,149
	------------	------------	------------	------------
Net (decrease) increase in net assets resulting from operations . .	(605,440)	(70,067)	476,195	497,128
Capital stock transactions:				
Restricted Stock Award	0	0	0	(536,146)
Proceeds from exercise of stock options. .	0	0	87,500	62,500
Tax benefit of exercise of stock options. .	0	0	72,188	0
Proceeds from private placement of common stock	0	0	0	5,000,001
	-----------	------------	------------	------------
Net increase from capital stock transactions	0	0	159,688	4,526,355
	-----------	------------	------------	------------
Net (decrease) increase in net assets. . . .	(605,440)	(70,067)	635,883	5,023,483
Net assets:				
Beginning of period	37,803,232	36,404,352	36,561,909	31,310,802
	------------	------------	------------	------------
End of period. . . .	$ 37,197,792	$ 36,334,285	$ 37,197,792	$ 36,334,285
	============	============	============	============

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<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1996
(UNAUDITED)

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

	Method of Valuation (3)	Shares/ Principal	Value
	-------------	---------	-----

Investments in Unaffiliated Companies (9)(11) -- 15.0% of total investments

Publicly-Traded Portfolio (Common Stock unless noted otherwise)

Oil and Gas Related -- 0.7%

CORDEX Petroleums, Inc. (1)(5) Argentinian oil and gas exploration Class A Common Stock.	(C)	4,052,080	$ 252,878
Biotechnology and Healthcare Related --7.3%			
Alliance Pharmaceutical Corporation (1)(5).	(C)	70,000	1,198,750
Biofield Corp.(1)(4).	(C)	50,000	456,250
Magellan Health Services, Inc. (1)(2)(5)(6).	(C)	54,368	1,090,531

Total Publicly-Traded Portfolio (cost: $1,566,024).			$ 2,998,409
Private Placement Portfolio (Illiquid) -- 7.0%			
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 0.9% Limited partnership interest. . .	(A)	- -	25,000
Micracor, Inc. (1)(2)(7) -- Designs and manufactures advanced solid state photonic systems -- 3.4% of fully-diluted equity			
Series F Convertible Preferred Stock -- 444,444 shares and 1,199,999 Warrants at $2.25 expiring 7/20/99.	(D)	- -	1
Convertible Note	(D)	$103,000	1
Princeton Video Image, Inc. (1)(2)(7)(8) Real time sports and entertainment advertising 3.6% of fully-diluted equity	(B)	68,400	
Warrants at $2.25 expiring 8/97. . . .	(D)	6,700	2,613,425

Total Private Placement Portfolio (cost: $1,771,000).			$ 2,638,427

Total Investments in Unaffiliated Companies (cost: $3,337,024)			$ 5,636,836

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1996
(UNAUDITED)

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Private Placement in Non-Controlled Affiliates (Illiquid) -- 30.6%			
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)	- -	$ 45,000
Gel Sciences, Inc. (1)(2)(7) -- Develops engineered response gels for controlled release systems -- 11.1% of fully-diluted equity			

Warrants -- 27,766 at $1.65 expiring 02/01/00	(D)	--	
Common Stock	(B)	171,172	
Series A Preferred Stock	(D)	135,178	
Series A-1 Preferred Stock	(D)	57,607	
Series B Convertible Preferred Stock	(B)	397,409	
Series C Convertible Preferred Stock	(B)	101,515	2,344,922
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 partnerships 24.9% of fully-diluted equity	(A)	--	500,000
Nanophase Technologies Corporation (1)(2)(5)(7) -- Manufactures and markets inorganic crystals of nanometric dimensions 7.6% of fully-diluted equity			
Series D Convertible Preferred Stock	(B)	1,162,204	2,614,959
NeuroMetrix, Inc. (1)(2)(4)(7) -- Developing a device for diabetics to monitor their blood glucose -- 30% of fully-diluted equity			
Warrants -- 125,000 at $1.60 expiring 6/2/97	(A)		
Series A Convertible Preferred Stock	(A)	175,000	210,000
PHZ Capital Partners Limited Partnership (1)(2)(5)(7) Organizes and manages investment partnership 20.0% of fully-diluted equity	(B)	1,000,000	
One year 8% note due 9/22/97	(A)	$ 500,000	500,000
PureSpeech, Inc. (1)(2)(4)(7) -- Develops and markets innovative speech recognition technology 8.6% of fully-diluted equity			
Series A Convertible Preferred Stock	(A)	190,476	999,999
Questech Corporation (1)(2)(5)(13) -- Manufactures and markets proprietary decorative tiles and signs - 18.9% of fully-diluted equity			
Common Stock	(B)	565,792	2,263,168
Warrants at $4.00 expiring 11/28/01	(A)	166,667	167
Sonex International Corporation (1)(2)(5)(7) -- 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	
Common Stock	(D)	34,000	1

Total Private Placement Portfolio in Non-Controlled Affiliates (cost: $11,062,518)			$ 11,445,716

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1996
(UNAUDITED)

<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			
26.6% of fully-diluted equity			
Series A Convertible Preferred Stock.	(A)	1,660,200	
Common Stock.	(A)	199,800	$ 1,000,304
MultiTarget, Inc. (1)(2)(4)(7)--Developing intellectual property related to localized treatment of cancer			
41.7% of fully-diluted equity			
Series A Convertible Preferred Stock.	(A)	375,000	60,811
nFX Corporation (1)(2)(7) -- Develops neural-network software			
37.5% 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)	689,920	1,539,979
PowerVoice Technologies, Inc. (1)(2)(4)(7) -- To commercially exploit innovative distributed computing technology			
29.7% of fully-diluted equity			
Series A Convertible Preferred Shares	(A)	500,000	500,000

Total Private Placement Portfolio in Controlled Affiliates (cost: $4,097,835)			$ 5,990,074

U.S. Government Obligations -- 38.4%			
Treasury Note dated 03/01/93 due date 02/28/98 -- 6.0% yield.	(C)		$ 4,941,400
Treasury Bill dated 10/19/95 due date 10/17/96 -- 4.9% yield.	(A)		1,498,248
Treasury Bill dated 11/16/95 due date 11/14/96 -- 5.0% yield.	(A)		1,997,996
Treasury Bill dated 12/14/95 due date 12/12/96 -- 5.0% yield.	(A)		2,098,703
Treasury Bill dated 6/15/96 due date 02/13/97 -- 5.2% yield.	(A)		3,833,741

Total Investments in U.S. Government Obligations (cost: $14,367,360)			$ 14,370,088

Total Investments -- 100% (cost: $32,864,737)			$ 37,442,714
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</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS SEPTEMBER 30, 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. There were no purchases or sales of these securities during the nine months ended September 30, 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 named Princeton Electronic Billboard, Inc.
9. Investments in unaffiliated companies consist of investments where the Company owns or has options to acquire less than 5% of the investee company. Investments in non-controlled affiliated companies consist of investments where the Company owns or has options to acquire more than 5% but less than 25% of the investee company. Investments in controlled affiliated companies consist of investments where the Company owns or has options to acquire more than 25% of the investee company.
10. Genomica Corporation was co-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 $3,444,701. The gross unrealized appreciation based on tax cost for these securities is $3,540,331. The gross unrealized depreciation based on the cost of these securities is $1,455.873.
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.
13. Formerly named Intaglio, Ltd.

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: 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) 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 ask 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.

(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 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 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 September 30, 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 September 30, 1996 and December 31, 1995, and the reported amounts of income and expenses for the three months and nine months ended September 30, 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 September 30, 1996, there were 2,088,536 shares of common stock reserved for the issuance of stock option awards under the Amended 1988 Plan, of which 1,253,605 were subject to outstanding options and warrants and 834,931 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> Number of Shares	<C> Option Exercise Price Per Share
Outstanding at December 31, 1995	1,050,000	\$1.1875 - \$5.750
Issued	80,000	\$6.1875 - \$7.000
Canceled	(64,000)	\$5.375
Exercised	(50,000)	\$1.750
Outstanding at September 30, 1996	1,016,000	\$1.1875 - \$7.000

</TABLE>

As of September 30, 1996, there were outstanding warrants to purchase 237,605 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, pursuant to which he is to receive compensation in the form of salary and other benefits. This contract was amended on June 30, 1992, January 3, 1993, and June 30, 1994. The term of the contract expires on December 31, 1999.

Base salary is 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, Mr. Harris is 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 and nine months ended September 30, 1996, the Company's income tax provision (benefit) was allocated as follows:

<TABLE>

<S>	<C> Three Months Ended 9/30/96	<C> Three Months Ended 9/30/95	<C> Nine Months Ended 9/30/96	<C> Nine Months Ended 9/30/95
Investment operations	$ (171,181)	$ (103,523)	$ (524,458)	$ (690,449)
Realized (loss) gain on investments. . .	(17,947)	70,313	(74,754)	(1,606)
Net increase in unrealized appreciation on investments. . .	(135,406)	51,610	866,385	564,927
Total income tax provision (benefit)	$ (324,534)	$ 18,400	$ 267,173	$ (127,128)

The above tax provision consists of the following:

	Three Months Ended 9/30/96	Three Months Ended 9/30/95	Nine Months Ended 9/30/96	Nine Months Ended 9/30/95
Current -- Federal	$ (188,540)	$ (13,309)	$ (600,269)	$ (860,710)
Deferred -- Federal	(135,994)	31,709	867,442	733,582
Total income tax provision (benefit)	$ (324,534)	$ 18,400	$ 267,173	$ (127,128)

</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 September 30, 1996 consists of the following:

Unrealized net appreciation on investments.	$ 1,564,635
Medical retirement benefits	(72,320)
Other	(74,243)
Net deferred income tax liability	$ 1,418,072

The exercise of nonqualified stock options 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 is not recognized, in accordance with Accounting Principles Board Opinion No. 25, as an expense for financial reporting 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 and nine months ended September 30, 1996, amounted to $41,784 and $119,628 respectively. 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 September 30, 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 tax provisions (benefits). 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 tax provisions (benefits). 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. When a security is sold to realize a gain (loss), net unrealized appreciation decreases (increases) and net realized gain increases (decreases).

Financial Condition at September 30, 1996

The Company's total assets and net assets were, respectively, $39,009,557 and $37,197,792 at September 30, 1996, versus $37,524,555 and $36,561,909 at December 31, 1995. Net asset value per share was $3.56 at September 30, 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 September 30, 1996, 51.5 percent of the Company's $39.0 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was $3.1 million before taxes. At December 31, 1995, 35.5 percent of the Company's $37.5 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was $0.8 million before taxes.

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

<TABLE>

<S>	<C> September 30, 1996	<C> December 31, 1995
Investments, at cost	$ 32,864,737	$ 33,826,696
Unrealized appreciation*	4,577,977	2,102,593
	------------	------------
Investments, at fair value	$ 37,442,714	$ 35,929,289
	============	============

</TABLE>

*The accumulated unrealized appreciation on investments net of deferred taxes is $3,013,342 at September 30, 1996, versus $1,404,343 at December 31, 1995.

Following an initial investment in a private company, the Company may make additional investments in such investee in order to: (1) increase its ownership percentage; (2) exercise warrants or options that were acquired in a prior financing; (3) preserve the Company's proportionate ownership in a subsequent financing or (4) attempt to preserve or enhance the value of the Company's investment. 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 investments made by the Company in its private placement portfolio during the nine months ended September 30, 1996:

<TABLE>

<S>	<C>
New Investments:	Amount
PureSpeech, Inc.	$ 999,999
Genomica, Inc.	1,000,304
NeuroMetrix, Inc.	210,000
MultiTarget, Inc.	60,811
PowerVoice Technologies, Inc.	500,000

Sub-total	$ 2,771,114
Follow-on Investments:	
nFX Corporation	$ 440,000
Micracor, Inc.	103,000

Gel Sciences, Inc.	545,000

Sub-total	$ 1,088,000
Exercise of Warrants Held:	
Princeton Video Image, Inc.	$ 547,500

Total	$ 4,406,614
	============

</TABLE>

Subsequent to September 30, 1996, the Company co-founded BioSupplyNet, Inc. with an investment of $575,000, representing a 34.5 percent fully-diluted interest.

Results of Operations

Investment Income and Expenses:

The Company's principal investment objective is 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 U.S. Government obligations. The amount of interest income earned varies based upon the average balance of the Company's portfolio of U.S. Government obligations and the average yield on this portfolio.

The Company had interest income of $625,434 and $754,706 for the nine months ended September 30, 1996 and September 30, 1995, respectively. The decrease is a result of a decline in the balance of the Company's portfolio of U.S. Government obligations due to purchases of non-income producing private portfolio investments. The Company also received consulting and administrative fees from certain portfolio companies which totaled $49,146 and $2,786 for the nine months ended September 30, 1996 and September 30, 1995, respectively.

Operating expenses were $2,230,703 and $2,005,415 for the nine months ended September 30, 1996 and September 30, 1995, respectively. The increase is primarily due to additional consulting fees incurred in 1996 related to prospective private portfolio investments. Most of the Company's operating expenses are related to employee and director compensation, office and rent expenses and consulting and professional fees (primarily legal and accounting).

Net operating losses before taxes were $1,518,432 and $1,239,487 for the nine months ended September 30, 1996 and September 30, 1995, respectively.

The Company has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments, rather than investment income, to defray a significant portion of its operating expenses. Because such sales cannot be predicted 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:

During the nine months ended September 30, 1996 and September 30, 1995, the Company sold various public securities realizing a net pre-tax loss of $213,584 and $4,589, respectively.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments decreased $424,708 during the three months ended September 30, 1996 owing primarily to decreased valuations of Micracor Inc., Dynecology, Inc. and Cordex Petroleums, Inc. offset slightly by an increase in the valuation of Alliance Pharmaceutical Corporation and Gel Sciences, Inc.

Net unrealized appreciation on investments increased $2,475,384 during the nine months ended September 30, 1996, owing primarily to increased valuations for Nanophase Technologies Corporation, Gel Sciences, Inc., Princeton Video Image, Inc., PHZ Capital Partners Limited Partnership, and Alliance Pharmaceutical Corporation, offset by the decreased valuation of Micracor Inc., Sonex International Corporation, Dynecology, Inc. and Cordex Petroleums, Inc.

Net unrealized appreciation on investments increased $1,322,799 during the nine months ended September 30, 1995, owing primarily to increased valuations for Cordex Petroleums, Inc. and Questech Corporation offset by the decreased valuation of Dynecology, Inc. and Magellan Health Services, Inc.

Liquidity and Capital Resources

The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at September 30, 1996 of $18,643,233, 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 company'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 been 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 10-Q
(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: November 13, 1996

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