

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1997
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(I.R.S. Employee
incorporation or organization)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 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 August 8, 1997 was
10,442,682.

1.

Harris & Harris Group, Inc.
Form 10-Q, June 30, 1997

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Harris & Harris Group, Inc.
Form 10-Q, June 30, 1997

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 be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1996 contained in the Company's 1996 Annual Report.

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STATEMENTS OF ASSETS AND LIABILITIES

ASSETS	
<S>	<C>
June 30, 1997	December 31, 1996
(Unaudited)	(Audited)

Investments, at value (See accompanying schedule of investments and notes)	\$ 29,058,316	\$ 35,648,682
Cash and cash equivalents	132,030	155,440
Interest receivable	115,690	198,342
Taxes receivable (Note 5)	2,119,492	2,119,492
Prepaid expenses	39,549	81,501
Other assets	235,678	351,833
	-----	-----
Total assets	\$ 31,700,755	\$ 38,555,290
	=====	=====

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities . .	\$ 400,458	\$ 374,326
Deferred rent	56,288	60,914
Deferred income tax liability (Note 5) . . .	0	2,187,447
	-----	-----
Total liabilities	456,746	2,622,687
Commitments and contingencies (Note 6)	-----	-----
	-----	-----
Net assets	\$ 31,244,009	\$ 35,932,603
	=====	=====

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 6/30/97 and 12/31/96	104,427	104,427
Additional paid in capital	15,850,576	15,850,576
Accumulated net realized income	15,215,652	15,606,009
Accumulated unrealized appreciation of investments, net of deferred tax liability of \$0 at 6/30/97 and \$2,295,998 at 12/31/96	73,354	4,371,591
	-----	-----
Net assets	\$ 31,244,009	\$ 35,932,603
	=====	=====
Shares outstanding	10,442,682	10,442,682
	-----	-----
Net asset value per outstanding share \$	2.99	\$ 3.44
	=====	=====

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

4.

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STATEMENTS OF OPERATIONS
(Unaudited)

<S>	<C>	<C>	<C>	<C>
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	6/30/97	6/30/97	6/30/96	6/30/97
Investment income:				
Interest from:				
Fixed-income securities	\$ 78,944	\$ 203,526	\$ 215,231	\$430,864
Affiliated companies	8,889	10,111	18,889	20,111
Dividend Income --				
Unaffiliated Companies	0	3,934	0	8,024
Other income	7,500	10,810	8,369	35,706
	-----	-----	-----	-----
Total investment income	95,333	228,381	242,489	494,705
Expenses:				
Salaries and benefits	345,919	387,675	786,243	784,306

Administration and operations	127,449	132,106	225,776	254,318
Professional fees	54,732	216,075	142,829	342,980
Directors' fees and expenses	14,878	14,671	50,726	27,071
Rent	33,219	39,498	72,716	77,844
Depreciation	15,000	18,687	30,000	28,687
Custodian fees	3,637	2,995	7,143	6,111
	-----	-----	-----	-----
Total expenses	594,834	811,707	1,315,433	1,521,317
	-----	-----	-----	-----
Operating loss				
before income taxes	(499,501)	(583,326)	(1,072,944)	(1,026,612)
Income tax (provision)				
benefit (Note 5)	(30,534)	199,147	168,347	353,277
	-----	-----	-----	-----
Net operating loss	(530,035)	(384,179)	(904,597)	(673,335)
	-----	-----	-----	-----
Net realized gain (loss) on investments:				
Realized gain (loss) on sale				
of investments	168,030	(226,727)	791,138	(162,307)
	-----	-----	-----	-----
Total realized gain (loss)	168,030	(226,727)	791,138	(162,307)
Income tax (provision)				
benefit (Note 5)	(58,810)	79,354	(276,898)	56,807
	-----	-----	-----	-----
Net realized gain (loss)				
on investments	109,220	(147,373)	514,240	(105,500)
	-----	-----	-----	-----
Net realized loss	(420,815)	(531,552)	(390,357)	(778,835)
	-----	-----	-----	-----
Net (decrease) increase in unrealized appreciation on investments:				
Increase as a result				
of investments sales	0	2,005	0	2,005
Decrease as a result				
of investments sales	0	0	(1,764,909)	0
Increase on investments held .	1,430,872	2,574,066	2,845,226	3,771,035
Decrease on investments held .	(5,420,882)	(937,004)	(7,674,552)	(910,779)
	-----	-----	-----	-----
Change in unrealized appreciation				
on investments	(3,990,010)	1,639,067	(6,594,235)	2,862,261
Income tax benefit (provision)				
(Note 5)	1,384,519	(573,673)	2,295,998	(1,001,791)
	-----	-----	-----	-----
Net (decrease) increase				
in unrealized appreciation				
on investments	(2,605,491)	1,065,394	(4,298,237)	1,860,470
	-----	-----	-----	-----
Net (decrease) increase in net assets from operations:				
Total	\$(3,026,306)	\$ 533,842	\$(4,688,594)	\$1,081,635
	=====	=====	=====	=====
Per outstanding share \$	(0.29)	\$ 0.05	\$(0.45)	\$ 0.10
	=====	=====	=====	=====

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

5.

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STATEMENTS OF CASH FLOWS
(Unaudited)

<S>

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Six Months Ended Six Months Ended
June 30, 1997 June 30, 1996

Cash flows provided by (used in)

operating activities:

Net (decrease) increase in net assets

resulting from operations \$(4,688,594) \$ 1,081,635

Adjustments to reconcile (decrease)

increase in net assets from operations

to net cash used in operating activities:		
Net realized and unrealized loss (gain)		
on investments	5,803,097	(2,699,954)
Deferred income taxes	(2,187,447)	1,003,437
Depreciation	30,000	28,687
Other	0	(893)
Changes in assets and liabilities:		
Receivable from brokers	0	205,789
Prepaid expenses	41,952	35,018
Interest receivable	82,652	82,958
Taxes receivable	0	(411,730)
Other assets	104,581	8,648
Accounts payable and		
accrued liabilities	26,132	31,092
Payable to brokers	0	0
Deferred rent	(4,626)	(4,627)
Purchase of fixed assets	(18,427)	(25,020)
	-----	-----
Net cash used in operating activities . . .	(810,680)	(664,960)
Cash provided by (used in) investing activities:		
Net sale of short-term investments		
and marketable securities	3,437,835	4,300,537
Investment in private placements	(2,650,565)	(3,845,803)
	-----	-----
Net cash provided by investing activities . .	787,270	454,734
Cash flows provided by financing activities:		
Proceeds from exercise of stock options . . .	0	87,500
	-----	-----
Net cash provided by financing activities . .	0	87,500
Net decrease in cash and cash equivalents:		
Cash and cash equivalents		
at beginning of the period	155,440	364,354
Cash and cash equivalents		
at end of the period	132,030	241,628
	-----	-----
Net decrease in cash and cash equivalents. . . \$	(23,410)	\$ (122,726)
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 5,959	\$ 2,145
	-----	-----

</TABLE>

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

6.

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STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

<S>	<C>	<C>	<C>	<C>
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	6/30/97	6/30/96	6/30/97	6/30/96
Changes in net assets				
from operations:				
Net operating loss	\$(530,035)	\$ (384,179)	\$(904,597)	\$(673,335)
Net realized gain (loss)				
on investments	109,220	(147,373)	514,240	(105,500)
Net decrease in unrealized				
appreciation on investments				
as a result of sales . . .	0	0	(1,147,190)	0
Net (decrease) increase in unrealized				
appreciation on				
investments held	(2,605,491)	1,065,394	(3,151,047)	1,860,470

Net (decrease) increase in net assets resulting from operations	(3,026,306)	533,842	(4,688,594)	1,081,635
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Changes in net assets from capital stock transactions:

Proceeds from exercise of stock options	0	0	0	87,500
Tax benefit of restricted stock award and common stock transactions	0	0	0	72,188

Net increase in net assets resulting from capital stock transactions	0	0	0	159,688
--	---	---	---	---------

Net (decrease) increase in net assets	(3,026,306)	533,842	(4,688,594)	1,241,323
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Net assets:

Beginning of period . .	34,270,315	37,269,390	35,932,603	36,561,909
End of period \$	\$ 31,244,009	\$ 37,803,232	\$ 31,244,009	\$ 37,803,232

</TABLE>

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

7.

<TABLE>
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SCHEDULE OF INVESTMENTS JUNE 30, 1997
(Unaudited)

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Investments in Unaffiliated Companies (9)(14)(15) -- 21.2% of total investments			
Publicly Traded Portfolio (common stock unless noted otherwise) -- 17.2% of total investments			
Oil and Gas Related			
CORDEX Petroleums Inc. (1)			
Argentine oil and gas exploration			
Class A Common Stock . . . (C)		4,052,080	\$ 324,223
Biotechnology and Healthcare Related			
Alliance Pharmaceutical Corporation (1)(4). (C)			
		80,000	804,960
Biosite Diagnostics, Inc. (1)(4). (C)			
		80,000	750,000
Cytoc Corp. (1)(4). (C)			
		10,000	271,250
ENDOCare, Inc. (1)(2)(4). (C)			
		150,000	562,500
Fuisz Technologies, Ltd. (1)(4) . . (C)			
		125,000	1,109,375
Keravision, Inc. (1)(4) (C)			
		45,000	410,625
Magellan Health Services, Inc. (1)(4)(6) (C)			
		20,000	590,000
Zonagen, Inc. (1)(4). (C)			
		7,500	164,062
Total Publicly Traded Portfolio (cost: \$4,469,648). \$ 4,986,995			

Private Placement Portfolio (Illiquid) -- 4.0% of total investments

Exponential Business Development Company (1)(2)(5)

Venture capital partnership focused on early stage companies

Limited partnership interest . . . (A) 0 \$ 25,000

Micracor, Inc. (1)(2)

Designs and manufactures advanced solid state photonic systems

Convertible Note (D) \$ 103,000 37,000

Princeton Video Image, Inc. (1)(2)(7)(8)

Real time sports and entertainment advertising

3.0% of fully diluted equity

Common Stock (B) 68,400

Warrants at \$2.25 expiring 8/25/97 (D) 6,700 1,110,674

Total Private Placement Portfolio (cost: \$771,000). \$ 1,172,674

Total Investments in

Unaffiliated Companies (cost: \$5,240,648). \$ 6,159,669

</TABLE>

The accompanying notes are an integral part of this schedule.

8.

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SCHEDULE OF INVESTMENTS JUNE 30, 1997

(Unaudited)

<S>

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Method of Shares/
Valuation(3) Principal Value

Private Placement Portfolio in Non-Controlled Affiliates

(9)(15) (Illiquid) -- 37.5% of total investments

Dynecology Incorporated (1)(2)(7) --

Develops various environmental intellectual properties --

Option expiring 12/16/98 to purchase at

\$15 per share 135,000 shares of

Common Stock equaling 18.2%

of fully diluted equity. (D) \$ 30,000

Gel Sciences, Inc. (1)(2)(7) --

Develops engineered response gels

for controlled release systems --

10.9% of fully diluted equity

Warrants at \$1.65

expiring 02/01/00. (D) 27,766

Common Stock (D) 171,172

Series A Preferred Stock (D) 135,178

Series A-1 Preferred Stock (D) 57,607

Series B Convertible Preferred Stock(D) 397,409

Series C Convertible Preferred Stock(D) 101,515

Demand Promissory Note (D) \$ 216,000 764,908

Genomica Corporation (1)(2)(7)(10) --

Develops software

that enables the study of complex

genetic diseases --

16.9% of fully diluted equity

Common Stock (A) 199,800

Series A Voting Convertible

Preferred Stock. (A) 1,660,200 1,000,304

Harber Brothers Productions, Inc.

(1)(2)(7) -- Finances, produces

and markets media products that combine

entertainment, music, learning and

interactivity --18.7% of fully diluted equity

Series A Voting Convertible

Preferred Stock (D) 967,500 1

Demand Promissory Note (D) \$ 250,000 1

Highline Capital Management, LLC. (2) --

Organizes and manages

investment partnerships --			
24.9% of fully diluted equity. . . (A)	500,000		
Highline Offshore Advisors, LLC.			
(1)(2)(4)(7) -- Organizes and manages offshore investment vehicles --			
24.9% of fully diluted equity. . . (A)	500,000		
Nanophase Technologies Corporation (1)(2)(7) --			
Manufactures and markets inorganic crystals of nanometric dimensions			
6.6% of fully diluted equity			
Series D Convertible Preferred Stock(B)	1,162,204	3,486,612	
NeuroMetrix, Inc. (1)(2)(7) -- Developing devices for: 1) diabetics to monitor their blood glucose and 2) detection of carpal tunnel syndrome			
30% of fully diluted equity			
Series A Convertible Preferred Stock(A)	125,000		
Series B Convertible Preferred Stock(A)	175,000	410,000	
PHZ Capital Partners Limited Partnership (1)(2)(5)			
Organizes and manages investment partnerships --			
20.0% of fully diluted equity			
Limited partnership interest . . . (B)	1,000,000		
One year 8% note due 9/22/97 . . . (A)	\$ 500,000	500,000	
PureSpeech, Inc. (1)(2)(7) -- Develops and markets innovative speech recognition technology --			
8.3% of fully diluted equity			
Series A Convertible Preferred Stock(D)	476,190	187,120	
Convertible Promissory Note. . . (A)	\$ 243,980	243,980	
Questech Corporation (1)(2)(5)(11) --			
Manufactures and markets proprietary decorative tiles and signs --			
15.4% of fully diluted equity			
Common Stock (D)	565,792	2,263,168	
Warrants at \$4.00 expiring 11/28/01.(A)	166,667	167	

Total Private Placement Portfolio			
in Non-Controlled Affiliates (cost: \$10,791,801)		\$ 10,886,261	

The accompanying notes are an integral part of this schedule.

9.

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SCHEDULE OF INVESTMENTS JUNE 30, 1997
(Unaudited)

<S>	<C>	<C>	<C>
	Method of	Shares/	
	Valuation (3)	Principal	Value

Private Placement Portfolio in Controlled Affiliates
(9)(15) (Illiquid) -- 13.5% of total investments

BioSupplyNet, Inc. (1)(2)(7)(13) -- Expands commercially the print and World Wide Web product directories developed by Cold Spring Harbor Laboratory Press
38.3% fully diluted equity
Series A Voting Convertible Preferred Stock. (A) 775,000 \$ 775,000

MultiTarget, Inc. (1)(2)(7) --
Developing intellectual property related to localized treatment of cancer
37.5% of fully diluted equity
Series A Convertible Preferred Stock . . (A) 375,000 106,396

NBX Corporation (1)(2)(7)(12) -- Exploits innovative distributed computing technology for use in small business telephone systems --
25.7% of fully diluted equity
Series A Convertible Preferred Stock . . (B) 500,000
Series C Convertible Preferred Stock . . (B) 240,793 2,615,000

nFX Corporation (1)(2) -- Develops neural-network software 38.3% of fully diluted equity Series A Voting Convertible Preferred Stock (D)	1,294,288	
Series B Non-Voting Convertible Preferred Stock (D)	689,920	289,014
Demand Promissory Note (A)	\$ 145,000	145,000

Total Private Placement Portfolio
in Controlled Affiliates (cost: \$4,913,116) \$ 3,930,410

U.S. Government Obligations -- 27.8% of total investments

U.S. Treasury Note dated 03/01/93 due date 02/28/98 -- 5.125% rate. (H)	\$ 5,000,000	\$ 4,981,250
U.S. Treasury Bill dated 01/09/97 due date 07/10/97 -- 4.8% yield (K)	\$ 360,000	358,118
U.S. Treasury Bill dated 03/13/97 due date 09/11/97 -- 5.1% yield (K)	\$ 1,240,000	1,208,425
U.S. Treasury Bill dated 11/14/96 due date 11/13/97 -- 5.2% yield (K)	\$ 1,590,000	1,534,183

Total Investments in U.S. Government Obligations
(cost: \$8,039,397) \$ 8,081,976

Total Investments -- 100% (cost: \$28,984,962) \$ 29,058,316
=====

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS JUNE 30, 1997
(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 Method of Valuation A to L.
- (4) These investments were made during 1997. Accordingly, the amounts shown on the schedule represent the gross additions in 1997.
- (5) No activity occurred in these investments during the six months ended June 30, 1997.
- (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 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 Harris & Harris Group, Inc. (the "Company") owns less than 5 percent of the investee company. Investments in non-controlled affiliated companies consist of investments where the Company owns more than 5 percent but less than 25 percent of the investee company. Investments in controlled affiliate companies consist of investments where the Company owns more than 25 percent of the investee company.
- (10) Genomica Corporation was cofounded by the Company, Cold Spring Harbor Laboratory and Falcon Technology Partners, LP. Mr. G. Morgan Browne serves on the Board of the Company and is Administrative Director of Cold Spring Harbor Laboratory.
- (11) Formerly named Intaglio, Ltd.
- (12) Formerly named PowerVoice Technologies, Inc.
- (13) BioSupplyNet, Inc. was cofounded by the Company, Cold Spring Harbor Laboratory and other investors. Mr. G. Morgan Browne serves on the Board

of Directors and is Administrative Director of Cold Spring Harbor Laboratory.

- (14) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is \$5,348,325. The gross unrealized appreciation based on tax cost for these securities is \$1,102,510. The gross unrealized depreciation on the cost for these securities is \$291,164.
- (15) 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 option grants.

The accompanying notes are an integral part of this schedule.

11.

FOOTNOTE TO SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

- 1) EQUITY-RELATED SECURITIES
- 2) INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT
- 3) LONG-TERM FIXED-INCOME SECURITIES
- 4) SHORT-TERM FIXED-INCOME INVESTMENTS
- 5) ALL OTHER INVESTMENTS

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

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

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

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

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

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

EQUITY-RELATED SECURITIES

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

A. Cost: The cost method is based on the original cost to the Company. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some examples of such events are: 1) a major recapitalization; 2) a major refinancing; 3) a significant third-party transaction; 4) the development of a meaningful public market for the company's common stock; 5) significant positive or negative changes in the company's business.

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

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by the Company. The Company discounts market value for securities that are subject to significant legal, contractual or practical restrictions, including large blocks in relation to trading volume. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation.

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

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

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

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

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

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

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

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

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

LONG-TERM FIXED-INCOME SECURITIES

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

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

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

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

SHORT-TERM FIXED-INCOME INVESTMENTS

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

ALL OTHER INVESTMENTS

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

14.

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 and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Reclassifications. Certain reclassifications have been made to the June 30, 1996 and December 31, 1996 financial statements to conform to the June 30, 1997 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 June 30, 1997 and December 31, 1996 and the reported amounts of revenues and expenses for the three and six months ended June 30, 1997 and June 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.

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 Company accounts for the 1988 Plan under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the 1988 Plan been determined consistent with the fair value method required by FASB Statement No. 123 ("FASB No. 123"), the Company's net realized loss and net asset value per share would have been reduced to the following pro-forma amounts:

17.

</TABLE>

<TABLE>

	<C>	<C>	<C>	<C>
	Three Months Ended 6/30/97	Three Months Ended 6/30/96	Six Months Ended 6/30/97	Six Months Ended 6/30/97

Net realized loss:

As Reported	\$ (420,815)	\$ (531,552)	\$(390,357)	\$(778,835)
Pro Forma	\$ (526,580)	\$ (643,214)	\$(601,888)	\$(1,002,159)

Net Asset Value per share:

As Reported	\$ 2.99	\$ 3.64	\$ 2.99	\$ 3.64
Pro Forma	\$ 2.98	\$ 3.63	\$ 2.97	\$ 3.62

</TABLE>

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

<TABLE>

<S>	<C>	<C>
	June 30, 1997	June 30, 1996
Stock volatility	0.60	0.61
Risk-free interest rate	6.3%	6.3%
Option term in years	7	7
Stock dividend yield	--	--

</TABLE>

Because the FASB No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost and related impact on net realized loss and net asset value per share may not be representative of that value to be expected in future years.

The Company may grant options for up to 2,088,536 shares under the 1988 Plan. The Company has granted options on 1,130,000 shares and 237,605 warrants through June 30, 1997. Under the 1988 Plan, the option exercise price equals the stock's market price on date of grant. The options granted vest over a five-year period and expire after 10 years.

18.

A summary of the status of the Company's 1988 Plan at June 30, 1997 and 1996 and changes during the six months then ended is presented in the table and narrative below:

<TABLE>

<S>	<C> June 30, 1997		<C> June 30, 1996	
	Shares	Weighted Average	Shares	Weighted Average
	-----		-----	
	Exercise Price		Exercise Price	
Outstanding at beginning of the period	1,080,000	\$4.58	1,050,000	\$4.44
Granted	320,000	\$3.94	80,000	\$6.39
Exercised	-	-	50,000	\$1.75
Forfeited	270,000	\$5.34	-	-
Expired	-	-	-	-
Outstanding at end of period	1,130,000	\$4.22	1,080,000	\$4.71
Exercisable at end of period	357,000	\$3.19	326,812	\$2.94
Weighted average fair value of options granted		\$2.50		\$4.09

</TABLE>

The range of exercise prices for the outstanding options as of June 30,

1997:

<TABLE>

<S> Options	<C> Exercise Price	<C> Remaining Life (Years)
8,000	\$1.1875	4.50
150,000	\$1.6250	2.10
50,000	\$3.0000	5.10
50,000	\$3.7500	4.70
410,000	\$5.3750	8.25
2,000	\$5.7500	8.60
60,000	\$6.1875	8.80
20,000	\$7.0000	9.10
80,000	\$3.6250	9.60
300,000	\$3.8750	9.80

As of June 30, 1997, 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 a non-competition, employment and severance contract with its Chairman, Charles E. Harris, pursuant to which he is to receive compensation in the form of salary and other benefits.

19.

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 amount as the Compensation Committee of the Board of Directors of the Company deems appropriate. In addition, Mr. Harris would be entitled, under certain circumstances, to receive severance pay under the employment and severance contracts.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. The Company's contribution 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 coverage for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of \$176,520 that was charged to operations for the period ending June 30, 1994. As of June 30, 1997, the Company had a reserve of \$232,415 for the plan.

NOTE 5. INCOME TAXES

The Company has not elected tax treatment available to regulated investment companies under Sub-Chapter 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 and six months ended June 30, 1997 and 1996, the Company's income tax (benefit) provision was allocated as follows:

</TABLE>

<TABLE>

<S>

	<C>	<C>	<C>	<C>
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	6/30/97	6/30/96	6/30/97	6/30/96

Investment operations . . .	\$ 30,534	\$ (199,147)	\$(168,347)	\$(353,277)
Realized gain (loss)				
on investments	58,810	(79,354)	276,898	(56,807)
(Decrease) increase				
in unrealized appreciation				
on investments	(1,384,519)	573,673	(2,295,998)	1,001,791
	-----	-----	-----	-----
Total income tax				
(benefit) provision . . .	\$(1,295,175)	\$ 295,172	\$(2,187,447)	\$ 591,707

</TABLE>

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

<TABLE>

<S>

	<C>	<C>	<C>	<C>
Current -- Federal	\$ (16,197)	\$ (277,136)	\$ 0	\$(411,729)
Deferred -- Federal	(1,278,978)	572,308	(2,187,447)	1,003,436
Total income tax				
(benefit) provision . . .	\$(1,295,175)	\$ 295,172	\$(2,187,447)	\$ 591,707

</TABLE>

The Company's deferred tax (asset) liability at June 30, 1997 and December 31, 1996 consists of the following:

<TABLE>

<S>

	<C>	<C>
	June 30, 1997	December 31, 1996

Unrealized appreciation on investments	\$ 0	\$ 2,295,998
Medical retirement benefits	(72,320)	(72,320)
Other	(30,181)	(36,231)
Net operating loss	(101,955)	0
Valuation allowance	204,456	0
	-----	-----
Net deferred income tax (asset) liability	\$ 0	\$ 2,187,447

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 office space. In 1995, this lease was amended to include additional office space. Rent expense under this lease was \$33,219 and \$39,498 for the three months ended June 30, 1997 and 1996, and \$72,716 and \$77,844 for the six months ended June 30, 1997 and 1996, respectively. Future minimum lease payments in each of the following years are: 1998 -- \$168,768; 1999 -- \$176,030; 2000 -- \$178,561; 2001 -- \$178,561; 2002 -- \$178,561; thereafter \$101,946.

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

The Company contributed to MIT securities with a cost basis of \$3,280, \$20,000 and \$20,000 in 1993, 1994, and 1995 respectively. These contributions

will be applied to the MIT Pledge at their market value at the time the shares become publicly traded or otherwise monetized in a commercial transaction and are free from restriction as to sale by MIT.

At June 30, 1997, 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.

In January 1997, the Company signed loan agreements with two of its investee companies for up to \$750,000. As of June 30, 1997, the Company had loaned \$395,000 to the investee companies. In addition, the Company has guaranteed a bonus of up to \$100,000 to the key employees of one of its investee companies.

In June 1997, the Company agreed to provide one of its investee companies a \$450,000 revolving line of credit. The purpose of this line of credit, which will be secured by accounts receivable, is to provide for seasonal cash flow. To the extent that this line of credit is utilized, the Company will also receive warrants to purchase common stock.

22.

Item 7. 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 (decrease) increase 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 benefits. The second element is "Net realized gain on investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost, net of applicable income tax provisions (benefits). These two elements are combined in the Company's financial statements and reported as "Net realized income (loss)." The third element, "Net (decrease) increase 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 on investments" and "Net (decrease) increase 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

The Company's total assets and net assets were, respectively, \$31,700,755 and \$31,244,009 at June 30, 1997, versus \$38,555,290 and \$35,932,603 at December 31, 1996. Net asset value per share was \$2.99 at June 30, 1997, versus \$3.44 at December 31, 1996.

The Company's financial condition is dependent on the success of its investments. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth or have no history of operations. At June 30, 1997, 50.4 percent of the Company's \$31.7 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was approximately \$0.1 million. At December 31, 1996, 48.8 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 approximately \$5 million before taxes.

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

	<C> June 30, 1997	<C> December 31, 1996
Investments, at cost	\$ 28,984,962	\$ 28,981,093
Unrealized appreciation	73,354	6,667,589
Investments, at fair value	<u>\$ 29,058,316</u>	<u>\$ 35,648,682</u>

The accumulated unrealized appreciation on investments net of deferred taxes is \$73,354 at June 30, 1997, versus \$4,371,591 at December 31, 1996.

23.

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) to exercise warrants or options that were acquired in a prior financing; (3) to 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 make follow-on investments in its private investee portfolio companies. The Company may elect not to make a follow-on investment either because it does not want to increase its concentration of risk or because it prefers other opportunities, even though the follow-on investment opportunity appears attractive.

The following table is a summary of the cash investments made by the Company in its private placement portfolio during the six months ended June 30, 1997:

<S>	<C>
Follow-on Investments:	Amount
BioSupplyNet, Inc.	\$ 200,000
Highline Offshore Advisors, LLC.	500,000
MultiTarget, Inc.	45,585
NBX Corporation	850,000
Sub-total	<u>\$ 1,595,585</u>
Loans:	
nFX Corporation	\$ 145,000
Gel Sciences, Inc.	216,000
Harber Brothers Productions, Inc.	250,000
PureSpeech, Inc.	243,980
Sub-total	<u>\$ 854,980</u>
Exercise of Warrants:	
NeuroMetrix, Inc	\$ 200,000
Total	<u>\$ 2,650,565</u>

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 securities, including U.S. Government Obligations. The amount of interest income earned varies based upon the average balance of the Company's fixed-income portfolio and the average yield on this portfolio.

24.

The Company had interest income from fixed-income securities of \$215,231 and \$430,864 for the six months ended June 30, 1997 and 1996, respectively. The decrease is a result of a decline in the balance of the Company's fixed-income portfolio. The Company also received dividends, consulting and administrative fees from certain portfolio companies which totaled \$8,369 and \$35,706 for the six months ended June 30, 1997 and 1996, respectively.

Operating expenses were \$1,315,433 and \$1,521,317 for the six months ended June 30, 1997 and 1996, respectively. 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 fees).

Net operating losses before taxes were \$1,072,944 and \$1,026,612 for the six months ended June 30, 1997 and 1996, 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 six months ended June 30, 1997, the Company sold various public securities realizing a net pre-tax gain of \$791,138, of which \$1,764,909 had been recognized in prior years, therefore, it decreased unrealized appreciation on investments. During the six months ended June 30, 1996, the Company sold various public securities realizing a net pre-tax loss of \$162,307, of which a loss of \$2,005 had been recognized in prior years.

During the three months ended June 30, 1997, the Company sold various public securities realizing a net pre-tax gain of \$168,030. During the three months ended June 30, 1996, the Company sold various public securities realizing a net pre-tax loss of \$226,727.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments before taxes decreased, during the six months ended June 30, 1997, \$6,594,235 from \$6,667,589 to \$73,354 owing primarily to decreased valuations in Gel Sciences, Inc., Harber Brothers Productions, Inc., nFX Corporation, Princeton Video Image, Inc. and PureSpeech, Inc., offset by the increased valuation in NBX Corporation and Nanophase Technologies, Inc.

Net unrealized appreciation on investments before taxes increased, during the six months ended June 30, 1996, \$2,862,261 from \$2,102,593, to \$4,964,854 owing primarily to increased valuations for Princeton Video Image, Inc., PHZ Capital Partners, Alliance Pharmaceutical Corp., Gel Sciences, Inc. and Nanophase Technologies, Inc., offset by the decreased valuation of Micracor Inc., Sonex International Corporation, Dynecology, Inc. and CORDEX Petroleums, Inc.

Net unrealized appreciation on investments before taxes decreased, during the three months ended June 30, 1997, \$3,990,010 from \$4,063,364 to \$73,354 owing primarily to decreased valuations for Gel Sciences, Inc., nFX Corporation and Princeton Video Image, Inc., offset by an increased valuation in Nanophase Technologies, Inc.

Net unrealized appreciation on investments before taxes increased, during the three months ended June 30, 1996, \$1,639,067, from \$3,325,787 to \$4,964,854, owing primarily to increased valuations for Gel Sciences, Inc. and Nanophase Technologies offset by the decreased valuation of Micracor Inc.,

Liquidity and Capital Resources

The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at June 30, 1997 of \$15,436,183 versus \$19,296,591 at December 31, 1996. Management believes that its cash, receivables and marketable securities provide the Company 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 inherent in the nature of the company's investment portfolio. There are significant risks inherent in the Company's venture capital business. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Company has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. The Company does not currently pay or intend to pay cash dividends. The Company has in the past relied and continues to rely to a large extent upon proceeds from sales of investments rather than investment income to defray a significant

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

On Tuesday July 29, 1997, Registrant held its Annual Meeting of Shareholders for the following purposes: 1) to elect directors of the Company; 2) to ratify, confirm and approve the Board of Directors' selection of Arthur Andersen LLP as the Company's independent public accountant for its fiscal year ending December 31, 1997. All of the nominees at the July 29, 1997 Annual Meeting were elected directors by an affirmative vote of at least 84.2 percent of the total shares outstanding. With respect to purpose number two, described as a proposal "to ratify, confirm and approve the Board of Directors' selection of Arthur Andersen LLP" as the Company's independent public accountant for its fiscal year ending December 31, 1997, the affirmative votes cast were 88.0 percent the negative votes cast were 0.8 percent and those abstaining were 0.1 percent, effecting passage.

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

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: August 14, 1997

</TABLE>

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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<REALIZED-GAINS-CURRENT>	168,030
<APPREC-INCREASE-CURRENT>	(3,990,010)
<NET-CHANGE-FROM-OPS>	(3,026,306)
<EQUALIZATION>	0
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<NUMBER-OF-SHARES-SOLD>	0
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<ACCUMULATED-NII-PRIOR>	0
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<GROSS-ADVISORY-FEES>	0
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<PER-SHARE-NAV-BEGIN>	3.44
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