

Securities Act Registration No. 333-110064
Investment Company Act File Number 814-176

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

FORM N-2

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933: /_/_

PRE-EFFECTIVE AMENDMENT NO. 3 |X|

POST-EFFECTIVE AMENDMENT NO. /_/_

AND/OR

HARRIS & HARRIS GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

111 West 57th Street
Suite 1100
New York, New York 10019
(Address of Principal Executive Offices)

(212) 582-0900
(Registrant's Telephone Number, including Area Code)

Charles E. Harris, Chairman, CEO
111 West 57th Street
Suite 1100
New York, New York 10019
(Name and Address of Agent for Service)

Copies to:

Richard T. Prins, Esq. Skadden, Arps, Slate, Meagher & Flom LLP Four Times Square New York, New York 10036 (212) 735-3000	Gary M. Epstein, Esq. Randolph A. Bullard, Esq. Greenberg Traurig LLP 1221 Brickell Avenue Miami, Florida 33131 (305) 579-0500
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Approximate Date of Proposed Public Offering:
As soon as practicable after the effective date of this Registration Statement.

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CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Amount Being Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
<S> Common Shares, \$0.01 par value	<C> 2,300,000	<C> \$8.46	<C> \$19,458,000	<C> \$1,575(2)

- (1) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 and based on the average of the high and low prices as reported on the Nasdaq National Market of the registrant's common stock on December 18, 2003.
- (2) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8 OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8, MAY DETERMINE.

HARRIS & HARRIS GROUP, INC.
CROSS-REFERENCE SHEET

<TABLE>
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PART A-PROSPECTUS

Items in Part A of Form N-2 -----	Location in prospectus -----
<S>	<C>
Item 1. Outside Front Cover	Front Cover Page
Item 2. Inside Front and Outside Back Cover Page	Front Cover Page; Inside Front Cover Page
Item 3. Fee Table and Synopsis	Prospectus Summary; Table of Fees and Expenses
Item 4. Financial Highlights	Financial Highlights
Item 5. Plan of Distribution	Prospectus Summary; Underwriting
Item 6. Selling Shareholders	Not Applicable
Item 7. Use of Proceeds	Use of Proceeds
Item 8. General Description of the Registrant	Business; Risk Factors; Investment Policies
Item 9. Management	Management of the Company
Item 10. Capital Stock, Long-Term Debt and Other Securities	Prospectus Summary; Capitalization; Dividends and Distributions; Taxation; Risk Factors
Item 11. Defaults and Arrears on Senior Securities	Not Applicable
Item 12. Legal Proceedings	Management of the Company
Item 13. Table of Contents of the Statement of Additional Information	Not Applicable

Items in Part B of Form N-2(1) -----	Location in prospectus -----
Item 14. Cover Page	Not Applicable
Item 15. Table of Contents	Not Applicable
Item 16. General Information and History	Business; Our History
Item 17. Investment Objective and Policies	Business; Investment Policies
Item 18. Management of the Company	Management of the Company
Item 19. Control Persons and Principal Shareholders	Management of the Company
Item 20. Investment Advisory and Other Services	Not Applicable
Item 21. Brokerage, Allocation and Other Practices	Investment Policies; Underwriting
Item 22. Tax Status	Taxation
Item 23. Financial Statements	Financial Statements

- (1) Pursuant to General Instructions to Form N-2, all information required by Part B: Statement of Additional Information has been incorporated into Part A: The Prospectus of the Registration Statement.

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PART C-OTHER INFORMATION

Items 24-33 have been answered in Part C of this Registration Statement.

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED DECEMBER 19, 2003

HARRIS & HARRIS GROUP, INC.

2,000,000 Shares

Common Stock

Harris & Harris Group, Inc. is a venture capital investment company that operates as a non-diversified business development company under the Investment Company Act of 1940. We are offering 2,000,000 shares of our common stock plus 300,000 additional shares if the underwriter exercises its over-allotment option at the public offering price less underwriter discounts and commissions within 30 days from the date of this prospectus. We are selling all of the shares offered hereby. Our common stock is listed on the Nasdaq National Market under the symbol "TINY." On December 18, 2003, the last reported sale price of our common stock was \$8.31.

An Investment In The Securities Offered In This Prospectus Involves A High Degree Of Risk. You Should Consider Investing In Us Only If You Are Capable Of Sustaining The Loss Of Your Entire Investment. See "Risk Factors" beginning on page 7.

This prospectus sets forth concisely the information about us that a prospective investor ought to know before investing. You should read this prospectus before deciding whether to invest in the shares of common stock and retain it for future reference. Material that has been incorporated by reference and other information about us can be obtained from the Securities and Exchange Commission's ("SEC") website (<http://www.sec.gov>).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a crime.

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	Price to Public	Sales Load	Proceeds to Company(3)
<S>	<C>	<C>	<C>
Total Minimum(1)	\$	\$	\$
Total Maximum(2)	\$	\$	\$

- (1) If over-allotment is not exercised.
(2) If over-allotment is exercised.
(3) Before deduction of expenses incurred by us, estimated at \$. After deducting the expenses, the net proceeds to us will be \$.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The shares of common stock will be ready for delivery on or about , 2003 at the offices of in New York.

The date of the prospectus is , 2003.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

In this prospectus, unless otherwise indicated, "Harris & Harris," "Company," "us," "our" and "we" refer to Harris & Harris Group, Inc. This prospectus also includes trademarks owned by other persons.

TABLE OF CONTENTS

Page

PROSPECTUS SUMMARY.....	1
TABLE OF FEES AND EXPENSES.....	5
RISK FACTORS.....	7
FORWARD-LOOKING INFORMATION.....	13
USE OF PROCEEDS.....	14
PRICE RANGE OF COMMON STOCK.....	14
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	15
SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA.....	17
BUSINESS	26
GENERAL DESCRIPTION OF OUR PORTFOLIO COMPANIES.....	30
DETERMINATION OF NET ASSET VALUE.....	34
INVESTMENT POLICIES.....	36
MANAGEMENT OF THE COMPANY.....	42
DIVIDENDS AND DISTRIBUTIONS.....	53
TAXATION	54
CERTAIN GOVERNMENT REGULATIONS.....	56
CAPITALIZATION.....	58
UNDERWRITING.....	59

LEGAL MATTERS.....	60
EXPERTS	60
CHANGE IN INDEPENDENT PUBLIC ACCOUNTANTS.....	60
FURTHER INFORMATION.....	61
PRIVACY PRINCIPLES OF THE COMPANY.....	61
PART C-- OTHER INFORMATION.....	C-1

PROSPECTUS SUMMARY

This summary highlights information that is described more fully elsewhere in this prospectus. It may not contain all of the information that is important to you. To understand the offering fully, you should read the entire document carefully, including the risk factors beginning on page 7.

Our Business

Harris & Harris Group, Inc. is a venture capital company specializing in tiny technology that operates as a non-diversified business development company under the Investment Company Act of 1940, which we refer to as the 1940 Act. For tax purposes, we operate as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, which we refer to as the Code. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Our approach is comprised of a patient examination of available early stage opportunities, thorough due diligence and close involvement with management.

We make new venture capital investments exclusively in "tiny technology," which we define as microsystems, microelectromechanical systems (which we refer to as MEMS) and nanotechnology. Our portfolio includes non-tiny technology investments made prior to 2001, and we may make follow-on investments in either tiny or non-tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly pure play on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded U.S. venture capital company specializing in tiny technology.

Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in general use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology has significant scientific, engineering and commercialization risks. See "Business" and "Risk Factors."

As a venture capital company, we make it possible for our investors to participate at an early stage in this emerging field while our portfolio companies are still private. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new intellectual property in tiny technology. To the investor, we offer:

- o a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;
- o a team of professionals including three full time members of management, Charles E. Harris, Mel P. Melsheimer and Douglas W. Jamison, and two directors who are also consultants, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, who collectively have expertise in venture capital investing, intellectual property and nanotechnology to evaluate and monitor investments;
- o the opportunity to benefit from our experience in a new field

expected to permeate a variety of industries; and

- o through the ownership of our publicly traded shares, a measure of liquidity not available in typical venture capital investments.

The number of tiny technology investment opportunities available to us has increased over the past two years, through both new opportunities and opportunities for follow-on investments in our existing portfolio companies. We believe that our expertise and record of prior investments in tiny technology are likely to lead us to additional tiny technology investment opportunities in the future. We intend to use the net proceeds of this offering to:

- o increase our capital in order to take advantage of these investment opportunities;
- o increase the types of tiny technology companies in our portfolio;
- o increase the percentage of our total assets invested in tiny technology; and
- o lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations.

We identify investment opportunities primarily through four channels:

- o our involvement in the field of tiny technology;
- o research universities that seek to transfer their scientific discoveries to the private sector;
- o other venture capital companies seeking co-investors; and
- o direct calls and business plan submissions by companies, business incubators and individuals seeking venture capital.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first tiny technology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a BDC. Recognizing the potential of tiny technology, we continued to monitor developments in the field, eventually making tiny technology our exclusive focus for initial investments. Since August 2001, all 12 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes a total of 18 companies, 13 of which we consider to be involved in tiny technology. We are an internally managed investment company; that is, our officers and employees, rather than an investment adviser, manage our operations under the general supervision of our board of directors.

Tiny Technology

Tiny technology is neither an industry nor a single technology, but a variety of enabling technologies with critical dimensions below 100 micrometers. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, material sciences, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces and fast acting painkillers.

Within tiny technology, microsystems and MEMS both refer to

materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device from 100 microns down to 0.1 micron in size may be considered "micro." Nanotechnology refers to materials, devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.00000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability presents significant and diverse market opportunities.

Risk Factors

Set forth below is a summary of certain risks that you should carefully consider before investing in us through the offering. See "Risk Factors" below for a more detailed discussion of the risks in investing in our shares of common stock.

- o Investing in small, private companies involves a high degree of risk and is highly speculative.
- o We may invest in companies working with technologies or intellectual property which currently has few or no proven commercial applications.
- o We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.
- o Unfavorable economic conditions could impair our ability to engage in liquidity events.
- o Because there is generally no established market in which to value our investments, our valuation committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.
- o Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.
- o Approximately 36% of the fair value of our venture capital investment portfolio, as of September 30, 2003, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.
- o Approximately 44% of the fair value of our venture capital investment portfolio, as of September 30, 2003, is not invested in tiny technology.
- o Bank borrowing or the issuance of debt securities or preferred stock by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile.
- o Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.
- o Our shares might trade at a discount from net asset value or at premiums that are unsustainable over the long term and currently trade at a substantial premium over net asset value.

Other Information

Our website is www.TinyTechVC.com and is not incorporated by reference into this prospectus. We make available free of charge through our website the following materials as soon as reasonably practicable after filing

or furnishing them to the SEC:

- o our annual report on Form 10-K;
- o our quarterly reports on Form 10-Q;
- o our current reports on Form 8-K; and
- o amendments to those reports.

The Offering

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Common stock offered..... 2,000,000 shares of common stock.

Common stock to be outstanding

after the offering..... 13,498,845 shares. Does not include 300,000 shares to be sold by us if the underwriter's over-allotment option is exercised in full, as described in "Underwriting."

Use of proceeds.....

We estimate the net proceeds of the offering to be approximately \$. We expect to invest or earmark for potential follow-on investment the net proceeds within approximately two years, depending on the available investment opportunities for the types of investments that we make. We may also pay operating expenses, including due diligence expenses on new investments, from the proceeds.

Nasdaq National Market

symbol..... TINY

</TABLE>

TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our common stock. Amounts are based on estimated amounts for our current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses, and the underwriter exercises the over-allotment option.

Shareholder Transaction Expenses

Sales Load (as a percentage of offering price) 6.00%

Annual Expenses (as a percentage of net assets attributable to common stock)

Management Fees(1)	N/A
Interest Payments on Borrowed Funds	.05%
Other Expenses(2)	
Profit-Sharing Accrual(3)	.00
Accrual for Mandatory Retirement(4)	.57
Salaries and Benefits(5)	3.34
Administration and Operations	1.01
Professional Fees	.84
Rent	.43
Directors' Fees and Expenses	.39
Depreciation	.11
Custodian Fees	.02
Total Annual Expenses (6)	6.76%

(1) The Company has no external management fees because it is internally managed.

(2) "Other Expenses" are based on estimated amounts for the current fiscal year.

(3) We have an Employee Profit-Sharing Plan that provides for profit sharing

equal to 20% of the net after-tax income we realize as reflected on our Consolidated Statement of Operations for each year, less non-qualifying gains, if any. Under the Employee Profit-Sharing Plan, the net income we realize includes investment income, gains and losses we realize and operating expenses (including taxes paid or payable by us), but does not include dividends paid or distributions made to shareholders, payments under the plan, gains and losses we have not realized and loss carryovers from other years. The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered non-qualifying gain. As of September 30, 2003, we have not realized any net income for this year and accordingly the expense accrual associated with this liability for 2003 is \$0 or 0% of net assets. This expense is subject to change over the remainder of 2003, and therefore, by year end, may be substantially larger than the amount stated above. Under no circumstances may this expense exceed 20% of the net after-tax income we realize.

- (4) We established a Mandatory Retirement Plan on March 20, 2003. In conjunction with this plan, we are required by law to provide to one employee, our President, Chief Operating Officer and Chief Financial Officer, a retirement benefit that has an estimated present value of \$450,000. We are amortizing the expense of this benefit through December 31, 2004 in the amounts of \$225,000 in 2003 and \$225,000 in 2004.
- (5) Our President, Chief Operating Officer and Chief Financial Officer is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. We expect that our other officers will assume his responsibilities thereafter. His salary and non-continuing benefits in 2003, including the amortization of his retirement benefit, will total approximately \$503,200, or 1.28% of net assets attributable to common stock.
- (6) Total annual expenses after December 31, 2004 will not include \$503,200 for our President, Chief Operating Officer and Chief Financial Officer's salary and non-continuing benefits. Total annual expenses as a percentage of net assets attributable to common stock, not including \$503,200 for our President, Chief Operating Officer and Chief Financial Officer's salary and non-continuing benefits, would be 5.48%.

Example

The following examples illustrate the projected dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon payment by us of expenses at levels set forth in the above table, which include \$503,200 of salary and non-continuing benefits for our President, Chief Operating Officer and Chief Financial Officer in the first year, but not thereafter.

You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:

1 Year	3 Years	5 Years	10 Years
-----	-----	-----	-----
\$123	\$224	\$323	\$569

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of our common stock. The above example should not be considered a representation of future expenses, and actual expenses and annual rates of return may be more or less than those assumed for purposes of the example.

Investing in our common stock involves a number of significant risks relating to our business and investment objective. You should carefully consider the risks and uncertainties described below before you purchase any of our common stock. These risks and uncertainties are not the only ones we face. Unknown additional risks and uncertainties, or ones that we currently consider immaterial, may also impair our business. If any of these risks or uncertainties materialize, our business, financial condition or results of operations could be materially adversely affected. In this event, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks related to the companies in our portfolio.

Investing in small, private companies involves a high degree of risk and is highly speculative.

We have invested a substantial portion of our assets in privately held development stage or start-up companies. These businesses tend to lack management depth, to have limited or no history of operations and to have not attained profitability. Tiny technology companies are especially risky, involving scientific, technological and commercialization risks. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our venture capital investments are likely to be complete losses or unprofitable and some will never realize their potential. We have been and will continue to be risk seeking rather than risk averse in our approach to venture capital and other investments. Neither our investments nor an investment in our common stock is intended to constitute a balanced investment program.

We may invest in companies working with technologies or intellectual property which currently has few or no proven commercial applications.

Nanotechnology, in particular, is a developing area of technology, of which much of the future commercial value is unknown, difficult to estimate and subject to widely varying interpretations. There are as of yet relatively few nanotechnology products commercially available. The timing of additional future commercially available nanotechnology products is highly uncertain.

Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

Research and commercialization efforts in tiny technology are being undertaken by a wide variety of government, academic and private corporate entities. As additional commercially viable applications of tiny technology begin to emerge, ownership of intellectual property on which these products are based may be contested. Any litigation over the ownership of, or rights to, any of our portfolio companies' technologies or products would have a material adverse effect on that company's value and may have a material adverse effect on the value of our common stock.

Our portfolio companies may not successfully market their products.

Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive, rapidly changing and especially sensitive to adverse general economic conditions. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

Unfavorable economic conditions could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.

Most of the companies in which we have made or will make investments are susceptible to economic slowdowns or recessions. An economic slowdown or adverse capital or credit market conditions may affect the ability of a company in our portfolio to raise additional capital from venture capital or other sources or to engage in a liquidity event such as an initial public offering or merger. These conditions may lead to financial losses in our portfolio, which could have a material adverse effect on the value of our common stock.

The value of our portfolio and the value of our common stock could be adversely affected if the technologies utilized by our portfolio companies are found to cause health or environmental risks.

Our portfolio companies work with new technologies, which could have potential environmental and health impacts. Tiny technology in general and nanotechnology in particular are currently the subject of health and environmental impact research. If health or environmental concerns about tiny technology or nanotechnology were to arise, our portfolio companies may incur additional research, legal and regulatory expenses, might have difficulty raising capital or could be forced out of business. This would have an adverse effect on the value of our portfolio and on the value of our common stock.

Risks related to the illiquidity of our investments.

We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.

Most of our investments are or will be equity or equity-linked securities acquired directly from small companies. These equity securities are generally subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of our portfolio of equity securities may adversely affect our ability to dispose of these securities at times when it may be advantageous for us to liquidate these investments. We may never be able to dispose of these securities.

Unfavorable economic conditions could impair our ability to engage in liquidity events.

Our business of making private equity investments and positioning our portfolio companies for liquidity events may be adversely affected by current and future capital markets and economic conditions. The public equity markets currently provide little opportunity for liquidity events, even for more mature technology companies than those in which we typically invest. The potential for public market liquidity could further decrease and could lead to an inability to realize potential gains or could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets. Recent government reforms affecting stock markets, investment banks and securities research practices may make it more difficult for privately held companies to complete successful initial public offerings of their equity securities. Slowdowns in initial public offerings also have an adverse effect on the frequency and valuations of acquisitions of privately held companies. The lack of opportunities to sell investments in privately held companies also has an adverse effect on the ability of these companies to raise capital.

Even if our portfolio companies complete initial public offerings, the returns on our investments may be uncertain.

When companies in which we have invested as private entities complete initial public offerings of their securities, these newly issued securities are by definition unseasoned issues. Unseasoned issues tend to be highly volatile and have uncertain liquidity, which may negatively affect their price. In addition, we are typically subject to lock-up provisions which prohibit us from selling our investments into the public market for specified periods of time after initial public offerings. The market price of securities that we hold may decline substantially before we are able to sell these securities. Most initial public offerings of technology companies are listed on the Nasdaq National Market. Recent government reforms of the Nasdaq National Market have made market making by broker-dealers less profitable, which has caused broker-dealers to reduce their market making activities, thereby making the market for unseasoned stocks less liquid.

Risks related to our company.

Because there is generally no established market in which to value our investments, our valuation committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.

There is generally no public market for the equity securities in which we invest. Pursuant to the requirements of the Investment Company Act of 1940, which we refer to as the 1940 Act, we value substantially all of the equity securities in our portfolio at fair value as determined in good faith

by the valuation committee of our board of directors within the guidelines established by the board of directors. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment pursuant to specified valuation principles and processes. We are required by the 1940 Act to value specifically each individual investment on a quarterly basis and record unrealized depreciation for an investment that we believe has become impaired. Conversely, we must record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value. Without a readily ascertainable market value and because of the inherent uncertainty of valuation, the fair value that we assign to our investments may differ from the values that would have been used had a ready market existed for the investments, and the difference could be material. Any changes in estimated fair value are recorded in our consolidated statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments." See "Determination of Net Asset Value."

Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.

As a result of investing a greater portion of our assets in the securities of a smaller number of issuers, we are classified as a non-diversified company. We may be more vulnerable to events affecting a single issuer or industry and therefore subject to greater volatility than a company whose investments are more broadly diversified. Accordingly, an investment in our common stock may present greater risk to you than an investment in a diversified company.

We may be obligated to pay substantial amounts under our profit sharing plan.

Our employee profit-sharing plan requires us to distribute to our officers and employees 20% of our net after-tax realized income as reflected on our consolidated statements of operations for that year, less the non-qualifying gain, if any. These distributions may have a significant effect on the amount of distributions made to our shareholders, if any.

Approximately 36% of the fair value of our venture capital investment portfolio, as of September 30, 2003, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.

At September 30, 2003, we valued our investment in NeuroMetrix, Inc., which is not a tiny technology company, at \$5,075,426, which represents 35.76% of the fair value of our venture capital investment portfolio, or 20.95% of our net asset value. Any downturn in the business outlook of NeuroMetrix, Inc., or any failure of the products of NeuroMetrix, Inc. to receive widespread acceptance in the marketplace, would have a significant effect on our specific investment in NeuroMetrix, Inc. and the overall value of our portfolio.

Approximately 44% of the fair value of our venture capital investment portfolio, as of September 30, 2003, is not invested in tiny technology.

Although all 12 of our investments added since August 2001 have been in tiny technology companies, and although we consider 13 of the companies in our venture capital investment portfolio to be tiny technology companies, at September 30, 2003, only 55.96% of the fair value of our venture capital investment portfolio, or 32.78% of our net asset value, was invested in tiny technology companies, which may limit our ability to achieve our investment objective.

We are dependent upon key management personnel for future success.

We are dependent for the selection, structuring, closing and monitoring of our investments on the diligence and skill of our senior management and other key advisers. We utilize lawyers and outside consultants, including two of our directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, to assist us in conducting due diligence when evaluating potential investments. There is generally no publicly available information about the companies in which we invest, and we rely significantly on the diligence of our employees and advisers to obtain information in connection with our

investment decisions. Our future success to a significant extent depends on the continued service and coordination of our senior management team, and particularly depends on our Chairman and Chief Executive Officer, Charles E. Harris. The departure of any of our executive officers, key employees or advisers could materially adversely affect our ability to implement our business strategy. We do not maintain for our benefit any key man life insurance on any of our officers or employees.

We will need to hire additional employees as the size of our portfolio increases.

We anticipate that it will be necessary for us to add investment professionals with expertise in tiny technology to accommodate the increasing size of our portfolio. We may need to provide additional scientific, business or investment training for our hires. There is competition for highly qualified personnel, and we may not be successful in our efforts to recruit and retain highly qualified personnel.

The market for venture capital investments, including tiny technology investments, is highly competitive.

We face substantial competition in our investing activities from many competitors, including but not limited to, private venture capital funds; investment affiliates of large industrial, technology, service and financial companies; small business investment companies; wealthy individuals; and foreign investors. Our most significant competitors typically have significantly greater financial resources than we do. Many sources of funding compete for a small number of attractive investment opportunities. Hence, we face substantial competition in sourcing good investment opportunities on terms of investment that are commercially attractive.

In addition to the difficulty of finding attractive investment opportunities, our status as a regulated business development company may hinder our ability to participate in investment opportunities or to protect the value of existing investments.

We are required to disclose on a quarterly basis the names and business descriptions of our portfolio companies and the value of any portfolio securities. Most of our competitors are not subject to these disclosure requirements. Our obligation to disclose this information could hinder our ability to invest in some portfolio companies. Additionally, other current and future regulations may make us less attractive as a potential investor than a competitor not subject to the same regulations.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (3) attempt to preserve or enhance the value of our investment. Recently, "pay to play" provisions have become common in venture capital transactions. These provisions require proportionate investment in subsequent rounds of financing in order to preserve preferred rights such as anti-dilution protection or even to prevent preferred shares from being converted to common shares.

We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation, or may cause us to lose some or all preferred rights pursuant to "pay to play" provisions. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities or because we are inhibited by compliance with business development company requirements or the desire to maintain our tax status.

Bank borrowing or the issuance of debt securities or preferred stock

by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile.

Use of debt or preferred stock as a source of capital entails two primary risks. The first risk is that the use of debt leverages our available common equity capital, magnifying the impact on net asset value of changes in the value of our investment portfolio. For example, a business development company that uses 33% leverage (that is, \$50 of leverage per \$100 of common equity) will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. The second risk is that the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, thereby diminishing rather than enhancing the return to common shareholders. To the extent that we utilize debt or preferred stock financing for any purpose, these two risks would likely make our total return to common shareholders more volatile. In addition, we might be required to sell investments, in order to meet dividend, interest or principal payments, when it may be disadvantageous for us to do so.

As provided in the 1940 Act and subject to some exceptions, we can issue debt or preferred stock so long as our total assets immediately after the issuance, less some ordinary course liabilities, exceed 200% of the sum of the debt and any preferred stock outstanding. The debt or preferred stock may be convertible in accordance with SEC guidelines, which may permit us to obtain leverage at more attractive rates. The requirement under the 1940 Act to pay, in full, dividends on preferred shares or interest on debt before any dividends may be paid on our common stock means that dividends on our common stock from earnings may be reduced or eliminated. An inability to pay dividends on our common stock could conceivably result in our ceasing to qualify as a regulated investment company, or RIC, under the tax Code, which would be materially adverse to the holders of our common stock.

We are authorized to issue preferred stock, which would convey special rights and privileges to its owners.

We are currently authorized to issue up to 2,000,000 shares of preferred stock, under terms and conditions determined by our board of directors. These shares would have a preference over our common stock with respect to dividends and liquidation. The statutory class voting rights of any preferred shares we would issue could make it more difficult for us to take some actions that may, in the future, be proposed by the board and/or holders of common stock, such as a merger, exchange of securities, liquidation or alteration of the rights of a class of our securities if these actions were perceived by the holders of the preferred shares as not in their best interests. The issuance of preferred shares convertible into shares of common stock might also reduce the net income and net asset value per share of our common stock upon conversion. These effects, among others, could have an adverse effect on your investment in our common stock.

Loss of status as a RIC would reduce our net asset value and distributable income.

We currently qualify as a RIC under the tax Code. As a RIC, we do not have to pay federal income taxes on our income (including realized gains) that is distributed to our shareholders. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. If we failed to qualify for RIC status, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value, net of a reduction in the reserve for employee profit sharing, accordingly. To the extent that we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, we would have to establish appropriate reserves for taxes upon making that decision. See "Taxation."

We operate in a regulated environment.

We are subject to substantive SEC regulations as a business development company. Securities and tax laws and regulations governing our activities may change in ways adverse to our and our shareholders' interests, and interpretations of these laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern our business could have an adverse impact on us or on our operations. Also, as business and financial practices continue to evolve, they may render the

regulations under which we operate less appropriate and more burdensome than they were when originally imposed. See "Certain Government Regulations."

Quarterly results fluctuate and are not indicative of future quarterly performance.

Our quarterly operating results fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we and our portfolio companies encounter competition in our markets and general economic and capital markets conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

To the extent that we do not realize income or retain after-tax realized capital gains, we may have a greater need for additional capital to fund our investments and operating expenses.

As a RIC, we must annually distribute at least 90% of our investment company taxable income as a dividend and may either distribute or retain our realized net capital gains from investments. As a result, these earnings may not be available to fund investments. If we fail to generate net realized capital gains or to obtain funds from outside sources, it would have a material adverse effect on our financial condition and results of operations as well as our ability to make follow-on and new investments. Because of the structure and objectives of our business, we generally expect to experience net operating losses and rely on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. These sales are unpredictable and may not occur. In addition, as a business development company, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow to fund these requirements.

Investment in foreign securities could result in additional risks.

The Company may invest in foreign securities, although we currently have no investments in foreign securities. If we invest in securities of foreign issuers, we may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, social, political and economic instability, differences in securities regulation and trading, expropriation or nationalization of assets, and foreign taxation issues. In addition, changes in government administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of our securities and could favorably or unfavorably affect our operations. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. Any foreign investments made by us must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments.

Risks related to this offering.

Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.

Our investment objective and strategies result in a high degree of risk in our investments and may result in losses in the value of our investment portfolio. Our investments in portfolio companies are highly speculative and, therefore, an investor in our shares of common stock may lose his or her entire investment. The value of our common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of the amount invested in our common stock. The securities markets frequently experience extreme price and volume fluctuations which affect market prices for securities of companies generally, and technology and very small capitalization companies in particular. Because of our focus on the technology and very small capitalization sectors, and because we are a small capitalization company ourselves, our stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the Internet and information technology, life sciences, nanotechnology, tiny technology, materials sciences and other high technology industries, may also affect the price of our common stock.

We will have broad discretion over the use of proceeds of this

offering.

We will have significant flexibility in applying the proceeds of this offering. We may also pay operating expenses, including due diligence expenses of potential new investments, from the net proceeds. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of the offering, pending full investment, are used to pay operating expenses.

Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies like us may, during some periods, trade at prices higher than their net asset value and during other periods, as frequently occurs with closed-end investment companies, trade at prices lower than their net asset value. The possibility that our shares will trade at discounts from net asset value or at premiums that are unsustainable over the long term are risks separate and distinct from the risk that our net asset value will decrease. The risk of purchasing shares of a business development company that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Shares of our common stock may not trade at a price higher than or equal to net asset value. On December 18, 2003, our stock closed at \$8.31 per share, a premium of \$6.20 over our net asset value per share of \$2.11 as of September 30, 2003.

Our former independent public accountant, Arthur Andersen LLP, has been found guilty of a federal obstruction of justice charge, and you may be unable to exercise effective remedies against it in any legal action.

Our former independent public accountant, Arthur Andersen LLP, provided us with auditing services for prior fiscal periods through December 31, 2001, including issuing an audit report with respect to our audited consolidated financial statements as of and for the years ended December 31, 2000 and 2001 included in our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference in this prospectus. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. On August 31, 2002, Arthur Andersen LLP ceased practicing before the SEC.

We were unable to obtain Arthur Andersen LLP's consent to include its report with respect to our audited consolidated financial statements as of and for the years ended December 31, 2000 and 2001 in our Annual Report on Form 10-K for the year ended December 31, 2002 or to incorporate by reference that report in this prospectus. Rule 437a under the Securities Act of 1933, or the Securities Act, permits us to dispense with the requirement to file their consent. As a result, you may not have an effective remedy against Arthur Andersen LLP in connection with a material misstatement or omission with respect to our audited consolidated financial statements that are incorporated by reference in this prospectus or any other filing we may make with the SEC, including, with respect to this offering or any other offering registered under the Securities Act, any claim under Section 11 of the Securities Act. In addition, even if you were able to assert a claim, as a result of its conviction and other lawsuits, Arthur Andersen LLP may fail or otherwise have insufficient assets to satisfy claims made by investors or by us that might arise under federal securities laws or otherwise relating to any alleged material misstatement or omission with respect to our audited consolidated financial statements.

You have no right to require us to repurchase your shares.

You do not have the right to require us to repurchase your shares of common stock.

FORWARD-LOOKING INFORMATION

This prospectus may contain "forward-looking statements" based on our current expectations, assumptions, and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will,"

"may," "continue" and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in this prospectus. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

USE OF PROCEEDS

We estimate the net proceeds of this offering to be approximately \$.

We expect to invest or earmark for potential follow-on investment the net proceeds within approximately two years, depending on the available investment opportunities for the types of investments that we make. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of shares of our common stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government or a government owned corporation. We may also pay operating expenses, including due diligence expenses on potential investments, from the proceeds, which will reduce the net proceeds of this offering that we will have available for investment.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "TINY."

The following table sets forth for the quarters indicated the high and low sale prices on the Nasdaq National Market per share of our common stock and the net asset value and the premium or discount from net asset value per share at which the shares of common stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

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Quarter Ended	Market Price		Premium or Discount as a Net Asset Value % of NAV		
	High	Low	Net Asset Value ("NAV") Per Share at End of Period	High	Low
<S>	<C>	<C>	<C>	<C>	<C>
March 31, 2000	35.75	9.00	5.08	603.7	77.2
June 30, 2000	18.50	5.13	3.88	376.8	32.2
September 30, 2000	10.75	5.50	4.64	131.7	18.5
December 31, 2000	7.13	2.25	3.51	103.1	(35.9)
March 31, 2001	4.25	2.06	3.09	37.5	(33.3)
June 30, 2001	3.29	2.01	3.29	0.0	(38.9)
September 30, 2001	2.86	1.60	2.92	(2.1)	(45.2)
December 31, 2001	2.33	1.55	2.75	(15.3)	(43.6)
March 31, 2002	5.50	1.80	2.63	109.1	(31.6)
June 30, 2002	5.10	2.74	2.68	90.3	2.2
September 30, 2002	2.99	2.00	2.61	14.6	(23.4)
December 31, 2002	2.50	1.85	2.37	5.5	(21.9)
March 31, 2003	3.99	2.36	2.26	76.5	4.4
June 30, 2003	7.95	2.71	2.22	258.1	22.1
September 30, 2003	9.49	4.47	2.11	349.8	111.8

</TABLE>

The last reported price for our common stock on December 18, 2003 was \$8.31 per share. As of December 19, 2003, we had approximately 153 shareholders of record.

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

The information contained in this section should be read in conjunction with our September 30, 2003 Summary Financial Statements and our 2002 Consolidated Financial Statements and the Notes thereto. In addition, this Prospectus contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may" or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions.

Information presented for portfolio companies has been obtained from the portfolio companies.

Background and Overview

We incorporated under the laws of the state of New York in August 1981. In 1983, we completed an initial public offering and invested \$406,936 in Otisville BioTech, Inc., which also completed an initial public offering later that year. In 1984, Charles E. Harris purchased a controlling interest in us, thereby also becoming the control person in Otisville. We then divested our other assets and became a financial services company, with the investment in Otisville as the initial focus of our business activity. We hired new management for Otisville, and Otisville acquired new technology targeting the development of a human blood substitute.

By 1988, we operated two insurance brokerages and a trust company as wholly-owned subsidiaries. In 1989, Otisville changed its name to Alliance Pharmaceutical Corporation, and by 1990, we had completed selling our \$406,936 investment in Alliance for total proceeds of \$3,923,559.

In 1992, we sold our insurance brokerage and trust company subsidiaries to their respective managements and registered as an investment company under the 1940 Act, commencing operations as a closed-end, non-diversified investment company. In 1995, we elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act. Throughout our corporate history, we have made early stage venture capital investments in a variety of industries. In 1994, we made our first tiny technology investment. Since August 2001, we have made initial investments exclusively in tiny technology, including our last 12 initial investments.

Since our investment in Otisville in 1983, we have made a total of 54 venture capital investments, including four investments, via private placements, in securities of publicly traded companies. We have sold 36 of these 54 investments, realizing total proceeds of \$105,659,158 on our invested capital of \$38,366,523. Sixteen of these 36 investments were profitable. The average and median holding periods for these 36 investments were 3.6 years and 3.2 years, respectively. At September 30, 2003, we valued the 18 venture capital investments remaining in our portfolio at \$14,192,218, or 58.6%, of our net assets, net of unrealized depreciation of \$2,891,452. At September 30, 2003, the average and median holding periods for our 18 current venture capital investments were 2.6 years and 1.6 years, respectively.

We have invested a substantial portion of our assets in private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth, have little or no history of operations and are developing unproven technologies. At September 30, 2003, \$14,192,218, or 58.6%, of our net assets consisted of venture capital investments at fair value, net of unrealized depreciation of \$2,891,452. At December 31, 2002, \$12,036,077, or 44.2%, of our net assets consisted of venture capital investments at fair value, of which net

unrealized depreciation was \$2,718,389. At December 31, 2001, \$13,120,978, or 53.9%, of our net assets consisted of venture capital investments at fair value, of which net unrealized appreciation was \$1,215,444.

We value our investments each quarter at fair value as determined in good faith by our valuation committee within guidelines established by our board of directors in accordance with the 1940 Act. See "Determination of Net Asset Value."

We have broad discretion in the investment of our capital. However, we invest primarily in illiquid equity securities of private companies. Generally, these investments take the form of preferred stock, are subject to restrictions on resale and have no established trading market. Our principal objective is to achieve long-term capital appreciation. Therefore, a significant portion of our investment portfolio provides little or no income in the form of dividends or interest. We do earn interest income from fixed-income securities, including U.S. government and government agency securities. The amount of interest income we earn varies with the average balance of our fixed-income portfolio and the average yield on this portfolio and is not expected to be material to our results of operations.

General business and capital markets conditions in 2002 and 2003 have been adverse for the venture capital industry. There have been few opportunities to take venture capital-backed companies public or sell them to established companies. During this period, it has also been difficult to finance venture capital-backed companies privately and, in general, for venture capital funds themselves to raise capital.

We present the financial results of our operations utilizing accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of our financial performance during any period is the net increase/(decrease) in our net assets resulting from our operating activities, which is the sum of the following three elements:

- (1) Net Operating Income / (Loss) - the difference between our income from interest, dividends, and fees and our operating expenses.
- (2) Net Realized Gain / (Loss) on Investments - the difference between the net proceeds of sales of portfolio securities and their stated cost.
- (3) Net Increase / (Decrease) in Unrealized Appreciation on Investments - the net change in the fair value of our investment portfolio.

Because of the structure and objectives of our business, we generally expect to experience net operating losses and seek to generate increases in our net assets from operations through the long term appreciation of our venture capital investments. We have in the past relied, and continue to rely, on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. Because sales of our investments are unpredictable, we attempt to maintain adequate working capital to provide for fiscal periods when we have no sales of investments.

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SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

BALANCE SHEET DATA

Financial Position as of:	September 30,		December 31,	
	2003	2002	2001	2000
	-----		-----	
	(unaudited)		(audited)	
<S>	<C>	<C>	<C>	<C>
Total assets	\$ 34,392,032	\$ 35,951,969	\$ 39,682,367	\$ 43,343,423
Total liabilities	\$ 10,166,120	\$ 8,695,923	\$ 15,347,597	\$ 11,509,948
Net assets	\$ 24,225,912	\$ 27,256,046	\$ 24,334,770	\$ 31,833,475

Cash dividends paid	\$ 0	\$ 0	\$ 0	\$ 184,817
Net asset value per outstanding share	\$ 2.11	\$ 2.37	\$ 2.75	\$ 3.51
Cash dividends paid per outstanding share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.02
Shares outstanding	11,498,845	11,498,845	8,864,231	9,064,231

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OPERATING DATA

	For the nine months ended		For the twelve months ended	
	September 30, 2003	2002	December 31, 2001	2000
	-----	-----	-----	-----
	(unaudited)	(audited)		
<S>	<C>	<C>	<C>	<C>
Total investment income	\$ 145,852	\$ 253,461	\$ 510,661	\$ 687,050
Total expenses(1)	\$ 2,029,647	\$ 2,124,549	\$ 1,035,221	\$ (2,623,200)
Net operating income (loss)	\$ (1,883,795)	\$ (1,871,088)	\$ (524,560)	\$ 3,310,250
Total tax expense (benefit)	\$ 13,822	\$ 199,309	\$ 27,951	\$ (51,869)
Net realized gain (loss)				
on investments	\$ (989,169)	\$ 2,390,302	\$ 1,276,366	\$ 18,963,832
Net realized income (loss)	\$ (989,169)	\$ 2,390,302	\$ 1,276,366	\$ 18,963,832
Net (decrease) increase in unrealized appreciation on investments	\$ (157,170)	\$ (3,241,408)	\$ (7,641,044)	\$ (37,781,289)
Net (decrease) increase in net assets resulting from operations	\$ (3,030,134)	\$ (2,722,194)	\$ (6,889,238)	\$ (15,507,207)
(Decrease) increase in net assets resulting from operations per outstanding share	\$ (0.26)	\$ (0.24)	\$ (0.78)	\$ (1.71)

(1) Included in total expenses are the following profit sharing (reversals) accruals: (\$163,049) in 2002; (\$984,021) in 2001; (\$4,812,675) in 2000.

Results of Operations

Three Months Ended September 30, 2003, and September 30, 2002

We had a net decrease in net assets resulting from operations of \$1,270,298 in the three months ended September 30, 2003, compared to a net increase in net assets resulting from operations of \$660,988 in the three months ended September 30, 2002. We had a net increase in net assets resulting from capital stock transactions of \$0 in the three months ended September 30, 2003, compared to a net increase in net assets resulting from capital stock transactions of \$5,665,970 in the three months ended September 30, 2002.

Investment Income and Expenses:

We had net operating losses of \$572,346 and \$479,433 for the three months ended September 30, 2003, and September 30, 2002, respectively. In the three months ended September 30, 2003, our larger net operating loss reflected a net increase to expenses primarily related to an increase in salaries and benefits offset by a decrease in professional fees.

Operating expenses were \$602,958 and \$556,846 for the three months ended September 30, 2003, and September 30, 2002, respectively. In the three months ended September 30, 2003, as compared with the three months ended September 30, 2002, salaries and benefits increased by \$100,142, or 38.5%, primarily as a result of an additional employee, and as a result of a mandatory retirement plan pension expense that is being amortized through December 31, 2004. In the three months ended September 30, 2003, as compared with the three months ended September 30, 2002, professional fees decreased by \$61,626, or 51.0%, primarily as a result of a shift in the timing of the expenses associated with the preparation of our proxy statement.

Realized Gains and Losses on Sales of Portfolio Securities:

During the three months ended September 30, 2003, and September 30, 2002, we realized losses of \$1,003,919 and gains of \$252,750, respectively.

During the three months ended September 30, 2003, we realized net losses of \$1,003,919, consisting primarily of a loss of \$1,000,001 on the realized loss resulting from the bankruptcy of Kriton Medical, Inc., from which we did not receive any direct distribution. During the three months ended September 30, 2002, we realized a net gain of \$252,750, consisting primarily of a gain of \$553,666 from our partnership interest in PHZ Capital Partners L.P., offset by a realized loss of \$360,249 on the sale of Schwoo, Inc. convertible bridge loans.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized depreciation on investments decreased by \$302,467, or 9.5%, during the three months ended September 30, 2003, from \$3,179,750 at June 30, 2003, to \$2,877,283 at September 30, 2003.

During the three months ended September 30, 2003, we recorded a net decrease of \$288,871 in unrealized depreciation of our venture capital investments.

Nine Months Ended September 30, 2003, and September 30, 2002

We had a net decrease in net assets resulting from operations of \$3,030,134 in the nine months ended September 30, 2003, and a net increase in net assets resulting from operations of \$58,343 in the nine months ended September 30, 2002.

Investment Income and Expenses:

We had net operating losses of \$1,883,795 and \$1,690,384 for the nine months ended September 30, 2003, and September 30, 2002, respectively.

Operating expenses were \$2,029,647 and \$1,887,627 for the nine months ended September 30, 2003, and September 30, 2002, respectively. Operating expenses in the nine months ended September 30, 2003, as compared with the nine months ended September 30, 2002, changed primarily for the following reasons:

- (1) Operating expenses for the nine months ended September 30, 2003, included no expense for employee profit-sharing, as compared with \$248,765 of employee profit-sharing expense for the nine months ended September 30, 2002.
- (2) Salaries and benefits increased by \$304,076, or 39.0%, primarily as a result of the addition of an employee and mandatory retirement plan pension expense that is being amortized through December 31, 2004.
- (3) Rent expense increased by \$39,583, or 30.5%, as a result of expenses incurred during the transition period to our new office space.

Realized Gains and Losses on Portfolio Securities:

During the nine months ended September 30, 2003, we realized net losses of \$975,347. During the nine months ended September 30, 2002, we realized net gains of \$1,052,110.

During the nine months ended September 30, 2003, we realized a loss of \$1,000,001 resulting from the bankruptcy of Kriton Medical, Inc. from which we did not receive any direct distribution.

During the nine months ended September 30, 2002, we realized net gains of \$1,052,110 consisting primarily of \$1,661,892 from our partnership interest in PHZ Capital Partners L.P., offset by a loss of \$350,583 on the dissolution of Informio, Inc. and a loss of \$360,249 on the sale of Schwoo, Inc. convertible bridge loans.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized depreciation on investments increased by \$157,170

during the nine months ended September 30, 2003, from \$2,720,113 at December 31, 2002, to \$2,877,283 at September 30, 2003.

During the nine months ended September 30, 2003, we recorded a net increase of \$173,063 in unrealized depreciation of our venture capital investments.

Years Ended December 31, 2002, 2001, and 2000

During the three years ended December 31, 2002, 2001, and 2000, we had net decreases in net assets resulting from operations of \$2,722,194, \$6,889,238 and \$15,507,207, respectively.

Investment Income and Expenses:

During the three years ended December 31, 2002, 2001, and 2000, we had net operating (loss) income of (\$1,871,088), (\$524,560) and \$3,310,250, respectively. The variation in these results reflects a decrease in the employee profit sharing accrual that resulted in a reversal of previously accrued expenses of \$163,049 in 2002, \$984,021 in 2001, and \$4,812,675 in 2000. When unrealized appreciation as of a certain date subsequently decreases or increases, the profit sharing accrual decreases or increases accordingly, resulting in a decrease or increase to expenses.

During the three years ended December 31, 2002, 2001, and 2000, operating expenses were \$2,124,549, \$1,035,221 and (\$2,623,200), respectively. The increase during 2002 was primarily owing to a \$820,972 reversal of the profit sharing accrual, as well as an increase in salaries and benefits, primarily owing to an increase in the retirement medical benefit expense and the expense of a new employee who started in September 2002, and an increase in professional fees, primarily as a result of expenses associated with new investments and preparation of our proxy statement. The increase during 2001 was primarily owing to a \$3,828,654 reversal of the profit sharing accrual, offset by a decrease in all other expenses of \$170,233.

Realized Gains and Losses on Sales of Portfolio Securities:

During the three years ended December 31, 2002, 2001, and 2000, we realized net gains on sales of portfolio securities of \$3,284,737, \$1,394,781 and \$19,065,267, respectively.

During 2002, we realized a gain of \$4,776,360 from the liquidation of our partnership interest in PHZ Capital Partners L.P., and losses of \$350,583 and \$1,248,825 from the liquidation of Informio, Inc. and the sale of our previously written-off investment in Schwoo, Inc., respectively.

During 2001, we realized gains on the sales of our investments in Nanophase Technologies Corporation of \$2,762,696 and Genomica Corporation of \$1,022,905. We realized losses on the sales of our investments in: Essential.com, Inc., \$1,349,512; shares of SciQuest.com, Inc. purchased in the open market, \$1,258,679; and MedLogic Global Corporation, \$1,033,765. We also realized a gain of \$1,266,729 from our partnership interest in PHZ Capital Partners L.P. As a result of the gains and losses realized during 2001, unrealized appreciation increased by \$3,948,271.

During 2000, we realized gains on the sales of our investments in Alliance Pharmaceutical Corp. of \$9,693,446 and SciQuest.com, Inc. of \$7,407,377.

Unrealized Appreciation and Depreciation of Portfolio Securities:

During the three years ended December 31, 2002, 2001, and 2000, net unrealized appreciation on investments decreased by \$3,936,533, \$7,731,508 and \$37,934,593, respectively. The decrease during 2002 was primarily owing to decreases in the valuations of our venture capital investments of \$3,933,834, including a decrease in unrealized appreciation of NeuroMetrix, Inc. of \$1,986,081. Unrealized appreciation (depreciation) on investments was (\$2,720,113) and \$1,216,420 at December 31, 2002, and 2001, respectively.

The decrease in 2001 was primarily owing to decreases in the valuations of our venture capital investments, including decreases in the valuations of our holdings of Nanophase Technologies Corporation, Genomica

Corporation and Schwoo, Inc. of \$5,499,664, \$1,540,375 and \$1,248,827, respectively, offset by increases in unrealized appreciation of \$1,528,082 and \$1,033,775 as a result of the realization of the losses on the sales of our investments in SciQuest.com, Inc. and MedLogic Global Corporation.

The decrease in 2000 was primarily owing to decreases in the valuations of our holdings in SciQuest.com, Inc. of \$26,102,456 and Kana Communications, Inc. of \$3,816,204, offset by an increase in the value of our holding in Nanophase Technologies Corporation of \$3,709,449.

Financial Condition

Nine Months ended September 30, 2003

Our total assets and net assets were \$34,392,032 and \$24,225,912, respectively, at September 30, 2003, compared with \$35,951,969 and \$27,256,046 at December 31, 2002.

Net asset value per share ("NAV") was \$2.11 at September 30, 2003, versus \$2.37 at December 31, 2002. Our shares outstanding remained unchanged during the nine months ended September 30, 2003.

Significant developments in the nine months ended September 30, 2003, were an increase in bank loan payable of \$7,609,500 and an increase in the value of our investment in U.S. Treasury obligations of \$2,989,888.

The increase in the value of our venture capital investments, from \$12,036,077 at December 31, 2002, to \$14,192,218 at September 30, 2003, resulted primarily from our three new venture capital investments and three follow-on investments, partially offset by a net decrease in the value of our venture capital investments.

The following table is a summary of additions to our portfolio of venture capital investments during the nine months ended September 30, 2003:

New Investment	Amount
-----	-----
Chlorogen, Inc.	\$ 525,900
NanoGram Devices Corporation	\$ 750,000
Nanosys, Inc.	\$ 1,500,000
Follow-on Investment	

NanoOpto Corporation	\$ 62,500
Nanotechnologies, Inc.	\$ 169,718
Nantero, Inc.	\$ 323,000

Total	\$ 3,331,118
	=====

Year Ended December 31, 2002

At December 31, 2002, our total assets and net assets were \$35,951,969 and \$27,256,046, respectively. Our NAV at that date was \$2.37, and our shares outstanding increased to 11,498,845 versus 8,864,231 at December 31, 2001.

During the 12 months ended December 31, 2002, significant developments included: (1) the payment of \$271,467 in federal income taxes as a result of our deemed dividend distribution to shareholders; (2) a net decrease in the unrealized appreciation of our venture capital investments of \$3,933,834, including a decrease in the unrealized appreciation of NeuroMetrix, Inc. of \$1,986,081; (3) a decrease in bank loan payable of \$12,495,777; (4) the receipt of net proceeds of \$5,643,470 pursuant to the issuance and exercise of transferable rights for 2,634,614 new shares of our common stock; and (5) the receipt of \$5,700,000 in cash and a recorded receivable in the amount of \$786,492 related to the liquidation of our partnership interest in PHZ Capital Partners L.P.

In addition, the value of our venture capital investments decreased by \$1,084,901, to \$12,036,077 at December 31, 2002, primarily owing to seven new venture capital investments and two follow-on investments totaling \$7,195,988, partially offset by write-downs in the valuations of our venture

capital investments of \$5,213,959 and the liquidations of Informio, Inc. and our partnership interest in PHZ Capital Partners L.P., which decreased the value of our venture capital investments by a total of \$3,072,382 from the value at December 31, 2001.

The following table is a summary of additions to our portfolio of venture capital investments for the year ended December 31, 2002:

New Investment	Amount
-----	-----
Agile Materials & Technologies, Inc.	\$ 1,000,000
Continuum Photonics, Inc.	\$ 1,000,000
Nanopharma Corp.	\$ 700,000
NanoOpto Corporation	\$ 625,000
Nanotechnologies, Inc.	\$ 750,000
Neo Photonics Corporation	\$ 1,000,000
Optiva, Inc.	\$ 1,250,000
Follow-on Investment	

Experion Systems, Inc.	\$ 517,706
NeuroMetrix, Inc.	\$ 353,282

Total	\$ 7,195,988
	=====

Year Ended December 31, 2001

At December 31, 2001, our total assets and our net assets were \$39,682,367 and \$24,334,770, respectively. Our NAV at that date was \$2.75, and our shares outstanding were 8,864,231.

During the 12 months ended December 31, 2001, significant developments included: (1) the payment of \$5,709,884 in federal income taxes as a result of our deemed dividend distribution; (2) a net decrease in the unrealized appreciation of our venture capital investments of \$7,731,465, including a write-off for book purposes of the value of our holdings in Schwoo, Inc. of \$1,248,827; (3) sales of our holdings in Nanophase Technologies Corporation, Genomica Corporation, SciQuest.com, Inc., Essential.com and MedLogic Global Corporation; and (4) a change in our valuation policy as of March 31, 2001, in accordance with newly promulgated SEC guidelines. We changed our valuation policy by no longer discounting publicly held securities for liquidity considerations. See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments."

The following table is a summary of additions to our portfolio of venture capital investments for the year ended December 31, 2001:

New Investment	Amount
-----	-----
Schwoo, Inc.	\$ 888,577
Nantero, Inc.	\$ 489,999
Follow-on Investment	

Experion Systems, Inc.	\$ 80,000
Loan	

Schwoo, Inc.	\$ 360,250

Total	\$ 1,818,826
	=====

The following table summarizes the fair value of our entire investment portfolio, as compared with its cost, at September 30, 2003, December 31, 2002, and December 31, 2001:

<TABLE>
<CAPTION>

	September 30, 2003	December 31, 2002	December 31, 2001	
	-----	-----	-----	
<S>	<C>	<C>	<C>	
Investments, at cost	\$35,510,134	\$30,206,935	\$37,714,285	
Unrealized (depreciation) appreciation(1)	(2,877,283)	(2,720,113)	1,216,420	
	-----	-----	-----	
Investments, at fair value	<u>\$32,632,851</u>	<u>\$27,486,822</u>	<u>\$38,930,705</u>	

</TABLE>

(1) At September 30, 2003, December 31, 2002, and December 31, 2001, the accumulated unrealized depreciation on investments, net of deferred taxes, was \$3,722,202, \$3,565,032 and \$323,624, respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at September 30, 2003, December 31, 2002, and December 31, 2001:

<TABLE>
<CAPTION>

Category	September 30, 2003	December 31, 2002	December 31, 2001	
-----	-----	-----	-----	
<S>	<C>	<C>	<C>	
Tiny Technology	56.0%	49.0%	9.3%	
Other Venture Capital Investments	44.0%	51.0%	90.7%	
	-----	-----	-----	
Total Venture Capital Investments	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	

</TABLE>

Cash Flow

Year Ended December 31, 2002

Cash flow provided by operating activities for the year ended December 31, 2002, was \$1,923,048, reflecting the following changes from December 31, 2001, to December 31, 2002: an increase in a payable to a broker for an unsettled trade of \$5,969,725; an increase in funds held in escrow of \$750,000; and an increase in a receivable from a partnership liquidation of \$786,492. In addition, net realized and unrealized loss on investments was \$651,797, and the net decrease in net assets resulting from operations was \$2,722,194.

Cash provided by investing activities for the year ended December 31, 2002, was \$10,751,980, reflecting a decrease in our investment in U.S. Treasury Bills of \$10,358,006 and the proceeds from the liquidation of investments of \$7,631,100, offset by investments in private placements of \$7,195,988.

Cash used in financing activities for the year ended December 31, 2002, was \$6,842,807, reflecting the payment of the outstanding balance on the asset line of credit of \$12,495,777, offset by the net proceeds from a rights offering of \$5,643,470. We intended to invest in tiny technology, under normal circumstances, directly or indirectly, the net proceeds of the rights offering in accordance with its investment objectives and policies, within the 12 months following the receipt of the net proceeds of the rights offering, depending on the available investment opportunities.

Liquidity and Capital Resources

Our primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. Our secondary sources of liquidity are restricted securities of companies that are publicly traded. We currently have no restricted securities of companies that are publicly traded.

Nine Months Ended September 30, 2003

At September 30, 2003, and December 31, 2002, our total net primary liquidity was \$11,154,675 and \$16,508,057, respectively. On both of the corresponding dates, our secondary liquidity was \$0, as we had no restricted securities of companies that are publicly traded. Our tertiary source of liquidity was our partnership interest in PHZ Capital Partners L.P., which was liquidated effective December 31, 2002. We received the final distribution of \$786,492 from PHZ Capital Partners L.P. in the first quarter of 2003.

The decrease in our net primary sources of liquidity from December 31, 2002, to September 30, 2003, is primarily owing to: (1) payment of federal, state and local taxes; (2) investment in Chlorogen, Inc.; (3) investment in Nanosys, Inc.; (4) investment in NanoOpto Corporation; (5) investment in Nanotechnologies, Inc.; (6) investment in Nantero, Inc.; and (7) use of funds for net operating expenses.

At September 30, 2003, our liability for accrued employee profit sharing was \$0, as compared with \$15,233 at December 31, 2002, as a result of the payment of \$15,233 for the 2002 profit sharing.

Our total net income tax liability decreased by \$941,251, from \$1,527,000 at December 31, 2002 to \$585,749 at September 30, 2003, primarily as a result of federal, state and local tax payments made for income earned in 2002.

Year Ended December 31, 2002

At December 31, 2002, 2001, and 2000, our net primary liquidity was \$16,508,057, \$13,459,654 and \$23,039,736, respectively. On the corresponding dates, our secondary liquidity was \$0, \$0 and \$3,040,679, respectively. Our tertiary source of liquidity was our partnership interest in PHZ Capital Partners L.P., from which we received cash distributions in 2002, 2001, and 2000 of \$6,588,661, \$172,068 and \$280,326, respectively. We liquidated our 20% partnership interest in PHZ for \$5,700,000 effective December 31, 2002, and we received a final distribution of \$786,492 on January 16, 2003. At December 31, 2002, this final distribution of \$786,492 was included in net primary liquidity as a receivable.

During the year ended December 31, 2002, the increase in our net primary liquidity was primarily owing to: (1) our payment of federal income taxes; (2) our investments in Nanopharma Corp., NanoOpto Corporation, NeoPhotonics Corporation, Experion Systems, Inc., Continuum Photonics, Inc., Nanotechnologies, Inc., Optiva, Inc., Agile Materials & Technologies, Inc. and NeuroMetrix, Inc.; (3) our funds held in escrow for a pending venture capital investment; and (4) our use of funds for operating expenses; offset by our receipt of \$5,643,470 of net proceeds from a rights offering of our common stock that closed July 31, 2002.

From December 31, 2001, to December 31, 2002, restricted funds increased by \$274,924, or 57.0%, owing to our 2002 contribution of \$147,478 to the Supplemental Executive Retirement Plan, or SERP account, and net changes in the account from income earned and changes in investments valuations.

From December 31, 2001, to December 31, 2002, our liability for accrued profit sharing decreased by \$163,049 to \$15,233, to reflect the estimated amount to be paid out under the profit sharing plan. Current income tax liability increased by \$602,588 to \$857,656, owing primarily to income recorded in association with the liquidation of our partnership interest in PHZ Capital Partners L.P.

On November 19, 2001, we established an asset account line of credit of up to \$12,700,000. The asset account line of credit is secured by our U.S. government and government agency securities. Under the asset account line of credit, we may borrow up to 95% of the current value of our U.S. government and government agency securities. Our outstanding balance under the asset line of credit at December 31, 2002, and December 31, 2001, was \$0 and \$12,495,777, respectively. The asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

Our net primary sources of liquidity are more than adequate to cover our gross cash operating expenses over the next 12 months. Our gross cash operating expenses totaled \$2,256,991, \$1,992,341 and \$2,051,086 in 2002, 2001, and 2000, respectively.

Critical Accounting Policies

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and those that require management's most difficult, complex or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments.

Valuation of Portfolio Investments

As a business development company, we invest primarily in illiquid securities including debt and equity securities of private companies. The investments are generally subject to restrictions on resale and generally have no established trading market. We value substantially all of our equity investments at fair value as determined in good faith by our valuation committee. The valuation committee, comprised of at least three or more non-interested board members, reviews and approves the valuation of our investments 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 our assets, 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.

Recent Developments -- Portfolio Companies

On January 16, 2003, we received \$786,492 as final payment for the liquidation of our partnership interest in PHZ Capital Partners L.P.

On February 3, 2003, we announced that we had invested \$750,000 in a convertible preferred security of NanoGram Devices Corporation. NanoGram Devices has developed and is commercializing specialized power sources for medical devices and other medical equipment based on its patented, laser-based nanomaterials synthesis technology.

On August 1, 2003, we made a follow-on investment of \$323,000 in the preferred stock of Nantero, Inc.

Recent Developments -- Other

Our qualification as a RIC under Sub-Chapter M of the Code depends on our satisfying certain technical requirements regarding our income, investment portfolio and distributions. SEC certification as to the nature of our operations enables us to obtain additional flexibility in satisfying the Sub-Chapter M requirements. On April 2, 2003, we received SEC certification for 2002, as we have for all prior years since 1999. We may not receive this certification for subsequent years (to the extent we need additional certification as a result of changes in our portfolio) or that we will actually qualify as a RIC for subsequent years. In addition, under some circumstances, even if we qualified for Sub-Chapter M treatment in a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

On July 22, 2003, the board of directors approved a resolution stating that we are committed to maintaining the privacy of our shareholders and to safeguarding their non-public personal information. Generally, we do not receive any non-public personal information relating to our shareholders, although some non-public personal information of our shareholders may become available to us. We do not disclose any non-public personal information about our shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator). We restrict access to non-public personal information about our shareholders to our employees and to employees of our service providers and their affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our shareholders.

We are a venture capital company specializing in tiny technology. We operate as a business development company under the 1940 Act. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early stage companies. While our portfolio includes non-tiny technology investments made prior to 2001, we now make our initial investments exclusively in tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly pure play on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded U.S. venture capital company specializing in tiny technology.

We have a long history of investing in venture capital and of business development. Our approach is traditional, in that we prefer a patient examination of available early stage opportunities, thorough due diligence and close involvement with management. To the investor, we offer:

- o a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;
- o a qualified team of professionals including three full time members of management, Charles E. Harris, Mel P. Melsheimer and Douglas W. Jamison, and two directors who are also consultants, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, who collectively have expertise in venture capital, intellectual property and nanotechnology to evaluate and monitor investments;
- o the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and
- o through the ownership of our publicly traded shares, a measure of liquidity not available in typical venture capital investments.

Microsystems, microelectromechanical systems, which we refer to as MEMS, and nanotechnology are often referred to collectively as "tiny technology," or "small technology," by scientists and others in this field. Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in general use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology has significant scientific, engineering and commercialization risks.

Tiny technology, particularly nanotechnology, is distinguished by its applicability to a wide range of industries. As a venture capital company, we make it possible, through the ownership of our shares, for our shareholders to participate in this emerging field at an earlier stage than would typically be possible for them. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new intellectual property in tiny technology.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first nanotechnology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a BDC. Recognizing the potential of tiny technology, we continued to monitor developments in the field, eventually making tiny technology the exclusive focus of our initial investment activity. Since August 2001, all 12 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes a total of 18 companies, of which we consider 13 to be involved in tiny technology. While we intend to make initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing non-tiny technology portfolio companies. The balance of our funds is primarily invested in short-term U.S. government and government agency securities. We are an internally managed investment company because our

officers and employees, under the general supervision of our board of directors, control our operations. We have no investment adviser.

Subject to our compliance with business development company and tax code requirements, there are no limitations on the types of securities or other assets, foreign or domestic, in which we may invest. Investments may include the following:

- o equity, equity-related securities (including warrants) and debt with equity features from either private or public issuers, whether in corporate, partnership or other form, including development stage or start-up entities;
- o debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity; and
- o to a limited extent, intellectual property, including patents, research and development in technology or product development that may lead to patents or other marketable technology.

Neither our investments nor an investment in our securities constitutes a balanced investment program. We have been and will continue to be risk seeking rather than risk averse in our investment approach. We reserve the fullest possible freedom of action, subject to our certificate of incorporation, applicable law and regulations, and policy statements described herein. Our tiny technology investment policy is not a "fundamental policy" under the 1940 Act and, accordingly, may be changed without shareholder approval, although we will give shareholders at least 60 days prior notice of any change.

Our business is subject to federal regulation under the 1940 Act, under which we have elected to operate as a business development company. As a business development company, we are subject to regulatory requirements, the most significant of which relate to our investments and borrowings. We are required to invest at least 70% of our assets in qualifying assets and, over time, at least 50% in "eligible portfolio companies." We must also maintain a coverage ratio of assets to senior securities (such as debt and preferred stock) of at least 200% immediately after giving effect to the issuance of any senior securities. We are also required to offer managerial assistance to our portfolio companies, in addition to our investment. For tax purposes, we are a RIC under the Internal Revenue Code of 1986. Both our status as a business development company and our status as a RIC allow us to commit all of our assets to only a few investments.

We believe that increasing our size should lower our expenses as a proportion of average net assets because some of our costs, such as administration and public company expenses, are fixed and can be spread over a larger asset base and will decline as a percentage of assets as our assets increase. Each due diligence investigation entails expenses whether or not we complete the transaction, and the cost of due diligence, negotiation and documentation of our investments does not vary significantly with the size of the investment or intended investment.

Some expenses are expected to increase as new investments are made. We plan to add personnel to enable us to enlarge the scope of our activities and our expertise in tiny technology, and our hiring of new employees will increase with more assets under management. We also believe that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of our visibility and improve the trading liquidity of our shares on the Nasdaq National Market. We may not realize any of these benefits.

Tiny Technology

Tiny technology refers to microsystems, MEMS and nanotechnology, a variety of enabling technologies with critical dimensions below 100 micrometers, including both organic and inorganic processes. Tiny technology is neither an industry nor a single technology. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the

integration of multiple disciplines, including biology, physics, chemistry, materials sciences, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces and fast acting painkillers.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device from 100 microns down to 0.1 micron in size may be considered "micro." Nanotechnology refers to devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.00000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

MEMS

MEMS often refer to three-dimensional devices with features between one and 100 microns that integrate electrical and mechanical structures. MEMS devices often contain a combination of sensors, actuators, mechanical structures and electronics that detect or respond to thermal, biological, chemical or optical information. To date, most commercial MEMS devices are batch fabricated out of silicon, using techniques based on standard semiconductor processes. Examples of devices incorporating MEMS technology include airbag accelerometers, smart pens for digital signatures, the Sony AIBO(TM) entertainment robot and Texas Instruments' Digital Light Processing Cinema(TM) system.

Microsystems

Microsystems are similar to MEMS, but without mechanical parts. Microsystems are microscale machines that sense information from the environment and provide a response to it. A microsystem often integrates mechanical, fluidic, optical and pneumatic components into a single system.

Examples of two established microsystem technologies include microarrays and lab-on-a-chip. Microarrays can identify thousands of genes simultaneously and usually perform one type of analysis multiple times. Lab-on-a-chip is a small chip containing microfluidic channels that quickly separate liquids and gases in order to permit microsensors to analyze the properties of the liquids and gases. The following are additional fields in which microsystems are currently being used:

- o Military/Aerospace -- telemetry, communications, guidance systems, control circuitry and avionics.
- o Geophysical Exploration -- seismic data acquisition and geophysical measurement equipment.
- o Medical Instrumentation -- instrument motor controls and diagnostic devices.
- o Satellite Systems -- power monitoring and control circuits.
- o Industrial Electronic Systems -- measurement and diagnostics on rotating machinery.
- o Opto-Electronics -- sub-miniature temperature controls and laser diode drivers for data transmission.

Nanotechnology

There are various definitions of nanotechnology. Regardless of the definition used, the technology being defined qualifies as tiny technology. A commonly used measure of nanotechnology includes all materials, devices and processes with critical dimensions below 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. Nanotechnology is defined by the U.S. Government's National Nanotechnology Initiative as research and technology development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1 - 100 nanometer range, to provide a fundamental understanding of phenomena and materials at the nanoscale and to

create and use structures, devices and systems that have novel properties and functions because of their small and/or intermediate size.

The nanoscale is the scale at which quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow heretofore unattainable material and device performance. Nanotechnology science and its implications are currently the subject of intense research and development efforts in the governmental, academic and corporate sectors, in the United States and internationally. According to the National Institute of Science and Technology, in 2003, worldwide research and development efforts in nanotechnology are expected to exceed \$3 billion.

Government research funding and patenting activity, prerequisites to successful commercialization of nanotechnology, have been growing rapidly in recent years. Currently, researchers in the field are collaborating with entrepreneurs and venture capitalists to form companies around nanotechnology platforms. According to the National Institute of Science and Technology, in April 2003, more than 1,700 companies in 34 nations were reportedly pursuing the commercialization of nanotechnology.

The first generation of nanotechnology products consists of instrumentation that permits visualization and manipulation of matter at the nanoscale and passive nanostructures such as coatings, nanoparticles and polymers. Examples of commercial instrumentation include nanoimprint lithography equipment, new variations of the atomic force microscope and highly sensitive gene and protein detecting arrays. Examples of commercial nanostructures include cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces, fast acting painkillers, quantum dot semiconductors that fluoresce different colors based on the size of the particles and nanoscale chemical mechanical polishing slurries for wafer polishing.

We believe that the next generation of nanotechnology products will likely consist of active nanostructures, including transistors, targeted drugs and chemicals, actuators and adaptive structures. We believe that these products are at least two to three years away from commercial application. Examples of products being developed include semiconductor nanowires that act as tiny transistors; functionalized, drug-delivering polymers that allow the release of therapeutics to be controlled by temperature, pH or a magnetic field at specified locations within the body; and engineered membrane structures for filtration.

We project that longer-term product opportunities may include integrated nanosystems involving heterogeneous nanocomponents and various assembling techniques. Patent applications explaining the science of these discoveries have recently been filed, and the first commercial entities formed to develop these technologies are emerging from universities, federal labs and industrial research centers. Future product opportunities may include exponentially denser and faster electronic devices, with individual molecules acting as transistors; tissues and organs engineered from self-assembling polymers that form biomimetic structures; and new forms of computing developed by exploiting the superposition of quantum particles.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability presents significant and diverse market opportunities. Our strategy is to invest in the best of these tiny technology companies, with emphasis on nanotechnology companies. This strategy includes making a number of these investments in the current environment, which is characterized by diminished investment by venture capital companies and depressed valuations for privately held, early stage companies.

GENERAL DESCRIPTION OF OUR PORTFOLIO COMPANIES

The following are brief descriptions of each portfolio company in which we are invested. The portfolio companies are presented in two categories: companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of the portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are

deemed to be an affiliated person under the 1940 Act; and companies where we directly or indirectly own less than 5% of the outstanding voting securities of the portfolio company and where we have no other affiliations. The value described below for each portfolio company is its fair value. Each portfolio company that we believe is significantly involved in tiny technology is designated by an asterisk (*).

Non-Controlled Affiliated Companies:

*Agile Materials & Technologies, Inc., located at 93 Castilian Drive, Goleta, California 93117, is developing and commercializing variable integrated passive electronic components utilizing thin-film ferroelectric materials in innovative circuit designs for commercial and military radio-frequency electronics. As of September 30, 2003, we held 3,732,736 shares of Series A Convertible Preferred Stock (representing 14.76% of the total Series A Convertible Preferred Stock outstanding) of Agile. As of the date above, our valuation committee fair valued the Series A Preferred Stock of Agile held by us at \$500,000. The Chief Executive Officer of the company is Charles A. Bischof.

*Chlorogen, Inc., located at 893 North Warson Road, St. Louis, Missouri 63141, is developing a high-yield, plant-based protein production technology. In this production technology, DNA molecules are packaged as nanosized expression cassettes and inserted into the plant chloroplast by a high velocity "gene gun." The genes from the expression cassettes are integrated into the chloroplast genome, resulting in the manufacture of the selected protein. As of September 30, 2003, we held 3,000,000 shares of Series A Convertible Preferred Stock (representing 10.46% of the total series A Convertible Preferred Stock outstanding) of Chlorogen. As of the date above, our valuation committee fair valued the Series A Preferred Stock of Chlorogen held by us at \$525,900. The Chief Executive Officer of the company is David N. Duncan.

Experion Systems, Inc., located at 8 Clock Tower Place, Maynard, Massachusetts 01754, develops and sells an e-business software package known as Guided Selling Systems for financial institutions to sell mortgages and other financial products to their members. Experion's initial customers are credit unions. As of September 30, 2003, we held 294,118 shares of Series A Convertible Preferred Stock (representing 24.29% of the total shares of Series A Convertible Preferred Stock outstanding), 35,294 shares of Series B Convertible Preferred Stock (representing 8.83% of the total shares of Series B Convertible Preferred Stock outstanding) and 222,184 shares of Series C Convertible Preferred Stock (representing 16.71% of the total shares of Series C Convertible Preferred Stock outstanding) of Experion. As of the above date, our valuation committee fair valued the total amount of shares of Experion held by us at \$1,037,000. Charles E. Harris serves as a Director of the company. Ross Blair is the Chief Executive Officer of the company, and Dr. Glen Urban, the David Austin Professor of Marketing at the MIT Sloan School, is the Chairman of the company.

*NanoGram Devices Corporation, located at 46774 Lakeview Boulevard, Fremont, California 94538, is a spinoff from NeoPhotonics. NanoGram Devices is commercializing specialized power sources for medical devices and other medical equipment based on its patented, laser-based nanomaterial synthesis technology. As of September 30, 2003, we held 63,210 shares of Series A-1 Convertible Preferred Stock (representing 1.81% of the total Series A-1 Convertible Preferred Stock outstanding) and 750,000 shares of Series A-2 Convertible Preferred Stock (representing 8.15% of the total Series A-2 Convertible Preferred stock outstanding) of NanoGram Devices. As of the date above, our valuation committee fair valued the total amount of shares of NanoGram Devices held by us at \$813,210. The Chief Executive Officer of the company is Barry Cheskin.

*Nanopharma Corp., located at 191 Commonwealth Avenue, Boston, Massachusetts 02116, is a privately held company spun off from Massachusetts General Hospital. Nanopharma is a research-based pharmaceutical company founded to develop advanced drug delivery systems. Nanopharma's main goal is to provide fully biodegradable nanoscopic drug delivery vehicles based on proprietary molecular constructs and "biological stealth" materials. The company plans to pursue an out-licensing program for its platform technologies. As of September 30,

2003, we held 684,516 shares of Series A Convertible Preferred Stock (representing 87.5% of the total Series A Convertible Preferred Stock outstanding) of Nanopharma. As of the date above, our valuation committee fair valued the Series A Convertible Preferred Stock of Nanopharma held by us at \$350,000. Charles E. Harris is a Director of the company. The Chief Executive Officer of the company is Michael Tarnow.

*Nanotechnologies, Inc., located at 1908 Kramer Lane, Building B, Suite L, Austin, Texas 78758, is developing for production a wide variety of high-performance nanoscale materials for industry. As of September 30, 2003, we held 1,538,837 shares of Series B Convertible Preferred Stock (representing 11.77% of the total Series B Preferred Stock outstanding) and 235,720 shares of Series C Convertible Preferred Stock (representing 6.48 % of the total Series C Preferred Stock outstanding) of Nanotechnologies. As of the date above, our valuation committee fair valued the total amount of shares of Nanotechnologies held by us at \$1,277,681. The Chief Executive Officer of the company is Randy Bell. Mel P. Melsheimer serves as a Director of the company.

NeuroMetrix, Inc., located at 62 Fourth Avenue, Waltham, Massachusetts 02451, is a spin-off from the Massachusetts Institute of Technology. NeuroMetrix develops and sells medical diagnostic products based on patented intellectual property related to developing portable instruments that permit low cost, non-invasive diagnostic tests. The company's core technology is focused on utilizing low-level, non-invasively measured, electrophysiological signals from nerves and muscles to perform an array of clinical diagnostic tests. The company's current products test for and monitor lower back pain, carpal tunnel syndrome and diabetic neuropathy. The company is operating in a large, untapped point-of-care neurodiagnostic market. The market opportunity is estimated at over \$1 billion with over 90% of it estimated to be in monitoring lower back pain, carpal tunnel syndrome and diabetic neuropathy. There is minimal direct competition but strong indirect competition that takes two forms, ElectroMyoGraphy (EMG) and neurologists. EMG requires expensive capital equipment and is targeted at specialists. Neurologists are expensive, require referral and provide no revenue for referring physicians. The company has a small but rapidly growing market share. The company now has over 1,000 customers. The company achieved initial 510(k) clearance from the Food and Drug Administration in 1998. Revenue is affected by government regulations specific to reimbursement procedures. The company is highly dependent on its intellectual property platform position. As of September 30, 2003, we held 875,000 shares of Series A Convertible Preferred Stock (representing 100% of the total Series A Convertible Preferred Stock outstanding), 625,000 shares of Series B Convertible Preferred Stock (representing 100% of the total Series B Convertible Preferred Stock outstanding), 1,148,100 shares of Series C-2 Convertible Preferred Stock (representing 100.00% of the total Series C-2 Convertible Preferred Stock outstanding), 499,996 shares of Series E Convertible Preferred Stock (representing 6.0% of the total Series E Convertible Preferred Stock outstanding) and 235,521 shares of Series E-1 Convertible Preferred Stock (representing 17.66% of the total Series E-1 Convertible Preferred Stock outstanding) of NeuroMetrix. As of the date above, our valuation committee fair valued the total amount of shares of NeuroMetrix held by us at \$5,075,426. Charles E. Harris serves as a Director of the company. The company's Chief Executive Officer is Dr. Shai N. Gozani, the Chief Operating Officer is Gary Gregory and the Senior Vice President of Engineering is Michael Williams.

*Questech Corporation, located at 92 Park Street, Rutland, Vermont 05701, manufactures and sells tile and trim products, based on its proprietary technology, with revenue generated from stock products. We originally invested in Questech on May 26, 1994. We did not invest in Questech as a tiny technology company, but Questech's proprietary technology is dependent on micro-scale processes. Thus, Questech may be regarded as a tiny technology holding. As of September 30, 2003, we held 646,954 shares of Common Stock (representing 8.09% of the total Common Stock outstanding) of Questech, as well as warrants to purchase 1,966 shares of Common Stock of the company at \$5.00 per share and 13,500 shares of Common Stock of the company at \$1.50 per share. As of the date above, our valuation committee fair valued the Common Stock of Questech held by us at \$724,588. Mel P. Melsheimer serves as a Director of the company. The Chief Executive Officer of the company is Barry J. Culkin.

Unaffiliated Companies:

Alpha Simplex Group, LLC, located at One Cambridge Center, 9th Floor, Cambridge, Massachusetts 02139, is an investment advisory firm. The company conducts a quantitative based hedge-fund operation. Alpha was founded by Dr. Andrew W. Lo, the Harris & Harris Group Professor at the MIT Sloan School. Charles E. Harris serves as an adviser to the company. As of September 30, 2003, we held 50,000 units (representing 0.5% of the total units outstanding) of Alpha, at no cost, subject to vesting at the rate of 2,500 units per quarter. As of September 30, 2003, 45,000 units were fully vested at a valuation of \$112,500. The Managing Member of the company is Dr. Andrew W. Lo.

*Continuum Photonics, Inc., located at 45 Manning Road, Billerica, Massachusetts 01821, is developing a family of MEMS switches for optical network applications. The switches are based on Continuum's proprietary piezoelectric ceramic substrates. As of September 30, 2003, we held 2,000,000 shares of the Series B Convertible Preferred Stock (representing 6.91% of the total Series B Preferred Stock outstanding) of Continuum. As of the date above, our valuation committee fair valued the Series B Preferred Stock of Continuum held by us at \$0. The Chief Executive Officer of the company is Jeffrey D. Farmer.

Exponential Business Development Company, located at 216 Walton Street, Syracuse, New York 13202, is a venture capital partnership that invests in early stage manufacturing, software development and communication technology industries in New York's Capitol region. As of September 30, 2003, we held one Limited Partnership Unit (representing 0.87% of the total Limited Partnership Units outstanding) of the company. As of the date above, our valuation committee fair valued the Limited Partnership Unit held by us at \$25,000. The Administrative Partner of the company is Dirk E. Sonneborn.

Heartware, Inc., located at 3351 Executive Way, Miramar, Florida 33025, is a privately held company engaged in research and development of implantable rotary blood pumps for patients who suffer from congestive heart failure. On July 10, 2003, we received 47,620 shares of Series A-2 Non-Voting Preferred stock of Heartware, Inc., a new company formed to acquire the assets and assume certain liabilities of Kriton Medical, Inc. ("Kriton") as part of Kriton's bankruptcy. As of September 30, 2003, we held 47,620 shares of Series A-2 Non-Voting Preferred Stock (representing 10.90% of the total Series A-2 Non-Voting Preferred Stock outstanding) of Heartware. As of the date above, our valuation committee fair valued the Series A-2 Non-Voting Preferred Stock of Heartware held by us at \$0. The Chief Executive Officer of the company is Seth Harrison.

*NanoGram Corporation, located at 2911 Zanker Road, San Jose, California 95134, owns a patent portfolio of approximately 75 patents and a complementary family of trademarks. NanoGram plans to license its broad intellectual property portfolio in fields including, nanomaterials-based films, discovery of new nanomaterials compositions, and rapid synthesis of nanopowders and films. As of September 30, 2003 we held 63,210 shares of Series 1 Preferred Stock (representing 1.81% of the total shares of Series 1 Preferred Stock outstanding) of NanoGram. As of the date above, our valuation committee fair valued the Series 1 Preferred Stock of NanoGram held by us at \$21,672. The Chief Executive Officer of the company is Timothy S. Jenks.

*NanoOpto Corporation, located at 1600 Cottontail Lane, Somerset, New Jersey 08873, is developing and manufacturing high performance, integrated optical communications and optical drive sub-components on a chip, based on patented technology. As of September 30, 2003, we held 267,857 shares of Series A-1 Convertible Preferred Stock (representing 10.22% of the total Series A-1 Convertible Preferred Stock outstanding) and 146,921 shares of Series B Convertible Preferred Stock (representing 3.54% of the total Series B Convertible Preferred Stock outstanding) of NanoOpto. As of the date above, our valuation committee fair valued the total amount of shares of NanoOpto held by us at \$110,067. The Chief Executive Officer of the company is Barry J. Weinbaum.

*Nanosys, Inc., located at 2625 Hanover Street, Palo Alto, California 94304, is a company with broad-based intellectual property that is initially commercializing applications in macroelectronics,

photovoltaics, and chemical and biological sensing. These applications incorporate novel zero and one-dimensional, nanometer-scale materials, such as nanowires and nanodots (quantum dots), as their principal active elements. As of September 30, 2003, we held 803,428 shares of Series C Convertible Preferred Stock (representing 4.03% of the total Series C Convertible Preferred Stock outstanding) of Nanosys. As of the date above, our valuation committee fair valued the Series C Preferred Stock of Nanosys held by us at \$1,500,000. The Chief Executive Officer of the company is Lawrence A. Bock.

*Nantero, Inc., located at 25-D Olympia Avenue, Woburn, Massachusetts 01801, is a spin-off from Harvard University. Nantero intends to be a fabless semiconductor company, focusing on the development of non-volatile random access memory based on carbon nanotubes. As of September 30, 2003, we held 345,070 shares of Series A Convertible Preferred Stock (representing 8.17% of the total Series A Preferred Stock outstanding) and 207,051 shares of Series B Convertible Preferred Stock (representing 3.08% of the total Series B Convertible Preferred Stock outstanding of Nantero. As of the date above, our valuation committee fair valued the total amount of shares of Nantero held by us at \$861,309. The Chief Executive Officer of the company is Greg Schmergel.

*NeoPhotonics Corporation, located at 2911 Zanker Road, San Jose, California 95134, is developing planar optical devices and components to manufacture and offer to leading optical component manufacturers using its patented nanomaterials deposition technology. The company is developing functional component arrays to offer integrated optical "systems on a chip" to component vendors. As of September 30, 2003, we held 1,498,802 shares of Series D Convertible Preferred Stock (representing 3.48% of the total Series D Convertible Preferred Stock outstanding) of NeoPhotonics. As of the date above, our valuation committee fair valued the total amount of shares of Neo held by us at \$7,865. The Chief Executive Officer of the company is Timothy S. Jenks.

*Optiva, Inc., located at 377 Oyster Point Boulevard, Suite 13, South San Francisco, California 94080, is developing and commercializing a new class of nanomaterials for advanced optical applications initially for the flat panel display industry. As of September 30, 2003, we held 1,249,999 shares of the Series C Preferred Stock (representing 4.13% of the total Series C Preferred Stock outstanding) of Optiva. As of the date above, our valuation committee fair valued the Series C Preferred Stock of Optiva held by us at \$1,250,000. The Chief Executive Officer of the company is Alan Marty.

With the exceptions of Alpha, NeuroMetrix, Questech and Experion, each of the foregoing portfolio companies is in its developmental stage or is a start-up business. Although Alpha, NeuroMetrix, Questech and Experion are each generating revenues that are material to them, they are still relatively early-stage companies with the attendant risks. Any of the companies may require additional funding that may not be obtainable at all or on the terms of their most recent fundings, which would result in partial or complete write-downs in value. In general, private equity is difficult to obtain, especially in the current economic environment. Each company is dependent upon a single or small number of customers and/or key operating personnel. All of the foregoing companies rely heavily upon the technology associated with their respective business or, in the case of Exponential, with the companies in which it invests. Therefore, each company places great importance on its relevant patents, trademarks, licenses, algorithms, trade secrets, franchises or concessions. Lastly, each company is particularly vulnerable to general economic, private equity and capital markets conditions and to changes in government regulation, interest rates or technology.

DETERMINATION OF NET ASSET VALUE

Our investments can be classified into five broad categories for valuation purposes:

- o Equity-related securities;
- o Investments in intellectual property or patents or research and development in technology or product development;

- o Long-term fixed-income securities;
- o Short-term fixed-income investments; and
- o All other investments.

The 1940 Act requires periodic valuation of each investment in our 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.

Our board of directors is responsible for (1) determining overall valuation guidelines and (2) ensuring the valuation of investments within the prescribed guidelines.

Our valuation committee, comprised of at least three or more independent board members, is responsible for reviewing and approving the valuation of our 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 our assets, 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.

The values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as these amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated.

Our 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:

Cost. The cost method is based on our original cost. 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 these events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's common stock; and (5) significant positive or negative changes in a company's business.

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

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 us. We discount market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

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 us 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 our 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 we own 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

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

Cost. The cost method is based on our original cost. This 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.

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.

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 us 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 our 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.

As of September 30, 2003, we do not have any investments in intellectual property or patents or research and development in technologies or product.

Long-Term Fixed-Income Securities

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:

- o 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.
- o Other fixed-income securities that are not readily marketable are valued at fair value by our valuation committee.

Short-Term Fixed-Income Investments

Short-term fixed-income investments are valued at market value at the time of valuation. We value short-term debt with remaining maturity of 60 days or less at amortized cost.

All Other Investments

All other investments are reported at fair value as determined in good faith by the valuation committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the 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 we had to sell the securities in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

As of September 30, 2003, we do not have any of these investments.

INVESTMENT POLICIES

Investments and Strategies

The following is a summary description of the types of assets in which we may invest, the investment strategies we may utilize and the attendant risks associated with our investments and strategies. For a full description of our investments and strategies, please refer to our Annual Report on Form 10-K incorporated by reference to this prospectus.

Equity, Equity-Related Securities and Debt with Equity Features

We may invest in equity, equity-related securities and debt with equity features. These securities include common stock, preferred stock, debt instruments convertible into common or preferred stock, limited partnership interests, other beneficial ownership interests and warrants, options or other rights to acquire any of the foregoing.

We may make investments in companies with operating histories that are unprofitable or marginally profitable, that have negative net worth or that are involved in bankruptcy or reorganization proceedings. These investments would involve businesses that management believes have turnaround potential through the infusion of additional capital and management assistance. In addition, we may make investments in connection with the acquisition or divestiture of companies or divisions of companies. There is a significantly greater risk of loss with these types of securities than is the case with traditional investment securities.

We may also invest in publicly traded securities of whatever nature, including relatively small, emerging growth companies that management believes have long-term growth possibilities.

Warrants, options and convertible or exchangeable securities generally give the investor the right to acquire specified equity securities of an issuer at a specified price during a specified period or on a specified date. Warrants and options fluctuate in value in relation to the value of the underlying security and the remaining life of the warrant or option, while convertible or exchangeable securities fluctuate in value both in relation to the intrinsic value of the security without the conversion or exchange feature and in relation to the value of the conversion or exchange feature, which is like a warrant or option. When we invest in these securities, we incur the risk that the option feature will expire worthless, thereby either eliminating or diminishing the value of our investment.

Investments in equity securities of private companies involve securities that are restricted as to sale and cannot be sold in the open market without registration under the Securities Act of 1933 or pursuant to a specific exemption from these registrations. Opportunities for sale are more limited than in the case of marketable securities, although these investments may be purchased at more advantageous prices and may offer attractive investment opportunities. Even if one of our portfolio companies completes an initial public offering, we are typically subject to a lock-up agreement, and the stock price may decline substantially before we are free to sell. Even if we have registration rights to make our investments more marketable, a

considerable amount of time may elapse between a decision to sell or register the securities for sale and the time when we are able to sell the securities. The prices obtainable upon sale may be adversely affected by market conditions or negative conditions affecting the issuer during the intervening time.

Venture Capital Investments

We expect to invest in development stage or start-up businesses. Substantially all of our long-term investments are in thinly capitalized, unproven, small companies focused on risky technologies. These businesses also tend to lack management depth, to have limited or no history of operations and to have not attained profitability. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our venture capital investments are likely to be complete losses or unprofitable and some will never realize their potential.

We may own 100% of the securities of a start-up investment for a period of time and may control the company for a substantial period. Start-up companies are more vulnerable than better capitalized companies to adverse business or economic developments. Start-up businesses generally have limited product lines, service niches, markets and/or financial resources. Start-up companies are not well-known to the investing public and are subject to potential bankruptcy, general movements in markets and perceptions of potential growth.

In connection with our venture capital investments, we may participate in providing a variety of services to our portfolio companies, including the following:

- o recruiting management;
- o formulating operating strategies;
- o creating marketing and advertising campaigns;
- o assisting in financial planning;
- o providing management in the initial start-up stages; and
- o establishing corporate goals.

We may assist in raising additional capital for these companies from other potential investors and may subordinate our own investment to that of other investors. We may also find it necessary or appropriate to provide additional capital of our own. We may introduce these companies to potential joint venture partners, suppliers and customers. In addition, we may assist in establishing relationships with investment bankers and other professionals. We may also assist with mergers and acquisitions. We do not derive income from these companies for the performance of any of the above services.

We may control, be represented on or have observer rights on the board of directors of a portfolio company by one or more of our officers or directors, who may also serve as officers of the portfolio company. We indemnify our officers and directors for serving on the boards of directors or as officers of portfolio companies, which exposes us to additional risks. Particularly during the early stages of an investment, we may in effect be conducting the operations of the portfolio company. As a venture company emerges from the developmental stage with greater management depth and experience, we expect that our role in the portfolio company's operations will diminish. Our goal is to assist each company in establishing its own independent capitalization, management and board of directors. We expect to be able to reduce our interest in those start-up companies which become successful.

Debt Obligations

We may hold debt securities for income and as a reserve pending more speculative investments. Debt obligations may include U.S. government and government agency securities, commercial paper, bankers' acceptances, receivables or other asset-based financing, notes, bonds, debentures, or other debt obligations of any nature and repurchase agreements related to these securities. These obligations may have varying terms with respect to security

or credit support, subordination, purchase price, interest payments and maturity from private, public or governmental issuers of any type located anywhere in the world. We may invest in debt obligations of companies with operating histories that are unprofitable or marginally profitable, that have negative net worth or are involved in bankruptcy or reorganization proceedings, or that are start-up or development stage entities. In addition, we may participate in the acquisition or divestiture of companies or divisions of companies through issuance or receipt of debt obligations.

It is likely that our investments in debt obligations will be of varying quality, including non-rated, highly speculative debt investments with limited marketability. Investments in lower-rated and non-rated securities, commonly referred to as "junk bonds," are subject to special risks, including a greater risk of loss of principal and non-payment of interest. Generally, lower-rated securities offer a higher return potential than higher-rated securities but involve greater volatility of price and greater risk of loss of income and principal, including the possibility of default or bankruptcy of the issuers of these securities. Lower-rated securities and comparable non-rated securities will likely have large uncertainties or major risk exposure to adverse conditions and are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The occurrence of adverse conditions and uncertainties to issuers of lower-rated securities would likely reduce the value of lower-rated securities held by us, with a commensurate effect on the value of our shares.

The markets in which lower-rated securities or comparable non-rated securities are traded generally are more limited than those in which higher-rated securities are traded. The existence of limited markets for these securities may restrict our ability to obtain accurate market quotations for the purposes of valuing lower-rated or non-rated securities and calculating net asset value or to sell securities at their fair value. Any economic downturn could adversely affect the ability of issuers' lower-rated securities to repay principal and pay interest thereon. The market values of lower-rated and non-rated securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher-rated securities. In addition, lower-rated securities and comparable non-rated securities generally present a higher degree of credit risk. Issuers of lower-rated securities and comparable non-rated securities are often highly leveraged and may not have more traditional methods of financing available to them, so that their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. The risk of loss owing to default by these issuers is significantly greater because lower-rated securities and comparable non-rated securities generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. We may incur additional expenses to the extent that we are required to seek recovery upon a default in the payment of principal or interest on our portfolio holdings.

The market value of investments in debt securities that carry no equity participation usually reflects yields generally available on securities of similar quality and type at the time purchased. When interest rates decline, the market value of a debt portfolio already invested at higher yields can be expected to rise if the securities are protected against early call. Similarly, when interest rates increase, the market value of a debt portfolio already invested at lower yields can be expected to decline. Deterioration in credit quality also generally causes a decline in market value of the security, while an improvement in credit quality generally leads to increased value.

Foreign Securities

We may make investments in securities of issuers whose principal operations are conducted outside the United States, and whose earnings and securities are stated in foreign currency. In order to maintain our status as a business development company, our investments in the stocks of foreign companies would be limited to 30% of our assets, and we do not anticipate investing a significant portion of our assets in foreign companies.

Compared to otherwise comparable investments in securities of U.S. issuers, currency exchange risk of securities of foreign issuers is a significant variable. The value of these investments to us will vary with the relation of the currency in which they are denominated to the U.S. dollar, as

well as with intrinsic elements of value such as credit risk, interest rates and performance of the issuer. Investments in foreign securities also involve risks relating to economic and political developments, including nationalization, expropriation, currency exchange freezes and local recession. Securities of many foreign issuers are less liquid and more volatile than those of comparable U.S. issuers. Interest and dividend income and capital gains on our foreign securities may be subject to withholding and other taxes that may not be recoverable by us. We may seek to hedge all or part of the currency risk of our investments in foreign securities through the use of futures, options and forward currency purchases or sales.

Intellectual Property

We believe there is a role for organizations that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property perceive the need for and rewards of entrepreneurial commercialization of their inventions.

Our form of investment may be:

- o funding research and development in the development of a technology;
- o obtaining licensing rights to intellectual property or patents;
- o acquiring intellectual property or patents; or
- o forming and funding companies or joint ventures to further commercialize intellectual property.

Income from our investments in intellectual property or its development may take the form of participation in licensing or royalty income, fee income, or some other form of remuneration. Investment in developmental intellectual property rights involves a high degree of risk that can result in the loss of our entire investment as well as additional risks including uncertainties as to the valuation of an investment and potential difficulty in liquidating an investment. Further, investments in intellectual property generally require investor patience as investment return may be realized only after or over a long period. At some point during the commercialization of a technology, our investment may be transformed into ownership of securities of a development stage or start-up company as discussed under "Venture Capital Investments" above.

Other Strategies

In pursuit of our investment strategy, we may employ one or more of the following strategies in order to enhance investment results.

Borrowing and Margin Transactions

We may from time to time borrow money or obtain credit by any lawful means from banks, lending institutions, other entities or individuals, in negotiated transactions. We may issue, publicly or privately, bonds, debentures or notes, in series or otherwise, with interest rates and other terms and provisions, including conversion rights, on a secured or unsecured basis, for any purpose, up to the maximum amounts and percentages permitted for closed-end investment companies under the 1940 Act. The 1940 Act currently prohibits us from borrowing any money or issuing any other senior securities (other than preferred stock and other than temporary borrowings of up to 5% of our assets), if in giving effect to the borrowing or issuance, the value of our total assets would be less than 200% of our total liabilities (other than liabilities not constituting senior securities). We may pledge assets to secure any borrowings. We currently have no leverage and have no current intention to issue preferred stock.

A primary purpose of our borrowing power is for leverage, to increase our ability to acquire investments both by acquiring larger positions and by acquiring more positions. Borrowings for leverage accentuate any increase or decrease in the market value of our investments and thus our net asset value. Since any decline in the net asset value of our investments will be borne first by holders of common stock, the effect of leverage in a declining market would be a greater decrease in net asset value applicable to the common stock than if we were not leveraged. Any decrease would likely be reflected in a

decline in the market price of the common stock. To the extent the income derived from assets acquired with borrowed funds exceeds the interest and other expenses associated with borrowing, our total income will be greater than if borrowings were not used. Conversely, if the income from assets is not sufficient to cover the borrowing costs, our total income will be less than if borrowings were not used. If our current income is not sufficient to meet our borrowing costs (repayment of principal and interest), we might have to liquidate our investments when it may be disadvantageous to do so. Our borrowings for the purpose of buying most liquid equity securities will be subject to the margin rules, which require excess liquid collateral marked to market daily. If we are unable to post sufficient collateral, we would be required to sell securities to remain in compliance with the margin rules. These sales might be at disadvantageous times or prices.

Repurchase of Shares

Our shareholders do not have the right to compel us to redeem our shares. We may, however, purchase outstanding shares of our common stock from time to time, subject to approval of our board of directors and compliance with applicable corporate and securities laws. The board of directors may authorize purchases from time to time when they are deemed to be in the best interests of our shareholders, but could do so only after notification to shareholders. The board of directors may or may not decide to undertake any purchases of our common stock.

Our repurchases of our common shares would decrease our total assets and would therefore likely have the effect of increasing our expense ratio. Subject to our investment restrictions, we may borrow money to finance the repurchase of our common stock in the open market pursuant to any tender offer. Interest on any borrowings to finance share repurchase transactions will reduce our net assets. If, because of market fluctuations or other reasons, the value of our assets falls below the required 1940 Act coverage requirements, we may have to reduce our borrowed debt to the extent necessary to comply with the requirement. To achieve a reduction, it is possible that we may be required to sell portfolio securities at inopportune times when it may be disadvantageous to do so. Since 1998, we have repurchased a total of 1,828,740 shares of our common stock at a total cost of \$3,405,531, or \$1.86 per share. Because we intend to continue investing in tiny technology, our board of directors does not currently intend to authorize the purchase of additional shares of our common stock.

Portfolio Company Turnover

Changes with respect to portfolio companies will be made as our management considers necessary in seeking to achieve our investment objective. The rate of portfolio turnover will not be treated as a limiting or relevant factor when circumstances exist which are considered by management to make portfolio changes advisable.

Although we expect that many of our investments will be relatively long term in nature, we may make changes in our particular portfolio holdings whenever it is considered that an investment no longer has substantial growth potential or has reached its anticipated level of performance, or (especially when cash is not otherwise available) that another investment appears to have a relatively greater opportunity for capital appreciation. We may also make general portfolio changes to increase our cash to position us in a defensive posture. We may make portfolio changes without regard to the length of time we have held an investment, or whether a sale results in profit or loss, or whether a purchase results in the reacquisition of an investment which we may have only recently sold.

The portfolio turnover rate may vary greatly from year to year as well as during a year and may also be affected by cash requirements.

Investment Restrictions

When we were a regulated investment company, pursuant to a requirement under the 1940 Act, we provided that our investment objective and the following investment restrictions were fundamental and could not be changed without the approval of the holders of a majority of our outstanding voting securities (defined in the 1940 Act as the lesser of (a) more than 50% of the outstanding shares or (b) 67% or more of the shares represented at a meeting at which more than 50% of the outstanding shares are represented). The

provisions of the 1940 Act regarding fundamental investment restrictions and objectives are not applicable to business development companies and accordingly we believe that the following restrictions do not apply to us although we have as a matter of fact conducted our operations consistently with them. Satisfaction of these restrictions was measured only at the time of a transaction, with the result that later changes in percentage resulting from changing market values, for example, would not be considered a deviation from policy. Under these restrictions, prior to becoming a business development company, we could not:

- (1) invest more than 25% of the value of our total assets in any one industry;
- (2) issue senior securities other than:
 - (a) preferred stock not in excess of the excess of 50% of our total assets over any senior securities described in clause (b) below that are outstanding,
 - (b) senior securities other than preferred stock (including borrowing money, including on margin if margin securities are owned and through entering into reverse repurchase agreements, and providing guaranties) not in excess of 33 1/3% of our total assets, and
 - (c) borrowings of up to 5% of our total assets for temporary purposes without regard to the amount of senior securities outstanding under clauses (a) and (b) above; provided, however, that our obligations under interest rate swaps, when issued and forward commitment transactions and similar transactions are not treated as senior securities if covering assets are appropriately segregated; or pledge our assets other than to secure the issuances or in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.

For purposes of clauses (a), (b) and (c) above, "total assets" shall be calculated after giving effect to the net proceeds of any issuance and net of any liabilities and indebtedness that do not constitute senior securities except for liabilities and indebtedness as are excluded from treatment as senior securities by the proviso to this item (2);

- (3) make loans of money or property to any person, except through loans and guaranties to entities, loans of portfolio securities, the acquisition of fixed income obligations consistent with our investment objective and policies or the acquisition of securities subject to repurchase agreements;
- (4) underwrite the securities of other issuers, except to the extent that in connection with the disposition of portfolio securities or the sale of our own securities we may be deemed to be an underwriter;
- (5) purchase or sell real estate or interests therein in excess of our total assets;
- (6) purchase or sell commodities or purchase or sell commodity contracts except for hedging purposes or in connection with business operations and except for precious metals and coins; or
- (7) make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, in giving effect to the sale, the market value of all securities sold short does not exceed 25%, except short sales "against the box" which are not subject to the limitation, of the value of our total assets and our aggregate short sales of a particular class of securities does not exceed 25% of the then-outstanding securities of that class.

MANAGEMENT OF THE COMPANY

Board of Directors and Certain Executive Officers

Set forth below are the names, ages, positions and principal occupations during the past five years of our directors and executive officers. We have no advisory board. Our business address and that of our officers and directors is 111 West 57th Street, Suite 1100, New York, New York 10019.

<TABLE>
<CAPTION>

Name and Age	Positions(s) Held with Registrant	Term of Office and Length of Time Served	Principal Occupations During Past 5 Years	Other Directorships Held by Director
<S>	<C>	<C>	<C>	<C>

INTERESTED DIRECTORS:

Charles E. Harris* ----- Age: 60	Director, Chief Executive Officer and Chairman of the Board	Director, Chairman and Chief Executive Officer since 1984; Chief Compliance Officer from 1997 to 2001	Chief Executive Officer of the Company. NeuroMetrix, Inc., Experion Systems, Inc. and Nanopharma Corp.	Harris & Harris Enterprises, Inc.,
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Dr. Kelly S. Kirkpatrick* Age: 37	Director and Consultant	Since 2002 Director for Research and Technology Initiatives, Office of the Executive Vice Provost, Columbia University, 2000 to 2002. White House Office of Science and Technology Policy, 1998 to 2000.	Business consultant. Director, Columbia Nanotechnology Initiative and	None
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Lori D. Pressman* Age: 45	Director and Consultant	Since 2002 Technology Licensing Officer, 1989 to 1995; Assistant Director, 1996 to 2000; Technology Licensing Office, Massachusetts Institute of Technology.	Business consultant.	None
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INDEPENDENT DIRECTORS:

Dr. C. Wayne Bardin Age: 68	Director	Since 1994 Thyreos Corp., 1998 to 2003.	Consultant. President,	None
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Dr. Phillip A. Bauman Age: 48	Director	Since 1998 Professor, Columbia University.	Orthopedic surgeon. Assistant	None
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G. Morgan Browne Age: 68	Director	Since 1992 Spring Harbor Laboratory since 2001, Administrative Director, Cold Spring Harbor	Chief Financial Officer, Cold Pharmaceuticals, Inc.	OSI
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Laboratory, 1995 to 2000.

Dugald A. Fletcher Age: 73	Director	Since 1996	President and Director, Fletcher & Company, Inc. Fund. Trustee of the Gabelli Growth Fund.	Gabelli Convertible Securities and Income Fund.
Glenn E. Mayer Age: 77	Director	Since 1981	Senior Vice President, Jesup & Lamont Securities Co., since 2001. Senior Vice President, Reich & Company, 1991 to 2001.	None
Charles E. Ramsey Age: 60	Director	Since 2002	Retired Founder and Principal of Ramsey/Beirne Associates, Inc. Chair of Bridges to Group, Inc. Community.	Experion Systems, Inc., The Seedling
Mark A. Parsells Age: 43	Director 2003	Since November	Chairman, President and Chief Executive Officer of Fusura LLC. Wilmington Renaissance Corporation and Winterthur Business Associates.	Fusura LLC, Experion Systems, Inc.,
James E. Roberts Age: 57	Director	Since 1995	Executive Vice President and Underwriting Officer, Alea North America Company - Reinsurance Division, since 2002. Vice Chairman, Chartwell Reinsurance Company. Chief Executive Officer, The Insurance Corporation of New York, Dakota Specialty Insurance Co. and ReCor Insurance Company, Inc., 1999 to 2000. Vice Chairman, Trenwick America Reinsurance Corporation, 1995 to 2000.	None

OFFICERS:

Charles E. Harris* Age: 60	Director, Chief Executive Officer and Chairman of the Board	Director, Chairman and Chief Executive Officer since 1984; Chief Compliance Officer from 1997 to 2001	Chief Executive Officer of the Company. NeuroMetrix, Inc. Experion Systems, Inc. and Nanopharma Corp.	Harris & Harris Enterprises, Inc.,
Mel P. Melsheimer Age: 64	President, Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer and Treasurer since 2001	President, Chief Operating Officer and Chief Financial Officer since 1997; Chief Compliance Officer and Treasurer	President, Chief Operating Officer, Chief Financial Officer and Treasurer of the Company. President of Harris & Harris Enterprises, Inc.	Questech Corporation, Harris & Harris Enterprises, Inc. and Nanotechnologies, Inc.
Douglas W. Jamison Age: 33	Vice President 2002	Since September	Vice President of the Company. Senior technology manager, University of Utah Technology Transfer Office, 1997 to 2002.	None
Helene B. Shavin Age: 50	Vice President, Controller and Assistant	Vice President and Controller since 2001; Assistant	Vice President, Controller and Assistant Secretary of the Company. Vice President and Controller of Harris & Harris	None

Secretary	Secretary since	Enterprises, Inc. since 2001.
2002	Vice President, Citicorp	
	Venture Capital, 1986 to 2000.	

</TABLE>

* Charles E. Harris is an "interested person" of the Company, as defined in the 1940 Act, as a beneficial owner of more than 5% of our stock, as a control person of ours and as one of our officers. In addition, each of Dr. Kelly S. Kirkpatrick and Lori D. Pressman may be considered to be an "interested person" of the Company because of the work each does consulting for the Company.

Messrs. Harris, Melsheimer and Jamison are primarily responsible for the day to day management of our portfolio, and have served in this capacity since 1984, 1997 and 2002, respectively.

We do not consider that any person other than Charles E. Harris "controls" the Company within the meaning of this item.

Executive Officers

Charles E. Harris. Mr. Harris currently serves as our Chairman and Chief Executive Officer. He has served as our Chief Executive Officer since July 1984. He has been a member of our board of directors and served as Chairman of the board since April 1984. He also served as our Chief Compliance Officer from February 1997 to February 2001. He was a member of the Advisory Panel for the Congressional Office of Technology Assessment. Prior to joining us, he was Chairman of Wood, Struthers and Winthrop Management Corporation, the investment advisory subsidiary of Donaldson, Lufkin and Jenrette. He is currently a member of the New York Society of Security Analysts. He acts as a Trustee and head of the audit committee of Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. He also serves as a Trustee and head of the audit committee of the Nidus Center, a life sciences business incubator in St. Louis, Missouri, and as a life-sustaining fellow of MIT and as a shareholder of its Entrepreneurship Center. He is an "interested person" as defined in Section 2(a)(19) of the 1940 Act, as a beneficial owner of more than 5% of our common stock, as a control person and as one of our officers.

Mel P. Melsheimer. Mr. Melsheimer has served as our President, Chief Operating Officer and Chief Financial Officer since February 1997. Since February 2001, he has also served as our Chief Compliance Officer and since July 2001, as Treasurer. From March 1994 to February 1997, he served as a nearly full-time consultant to us or as an officer to one of our portfolio companies. From November 1992 to February 1994, he served as Executive Vice President, Chief Operating Officer and Secretary of Dairy Holdings, Inc.

Douglas W. Jamison. Mr. Jamison has served as our Vice President since September 2002. Prior to joining us, he worked for five years as a Senior Technology Manager at the University of Utah Technology Transfer Office, where he managed intellectual property.

Helene B. Shavin. Ms. Shavin has served as our Vice President and Contoller since 2001 and as our Assistant Secretary since 2002. Prior to joining us, she was a Vice President with Citicorp Venture Capital from 1986 to 2000.

Board of Directors

Our board of directors supervises our management. The responsibilities of each director include, among other things, the oversight of the investment approval process, the quarterly valuation of our assets, and the oversight of our financing arrangements.

Interested Directors:

Charles E. Harris. See biography under "Executive Officers."

Kelly S. Kirkpatrick. Dr. Kirkpatrick has served as a member of our

board of directors since March 2002. She has served as a consultant to us on nanotechnology and in our due diligence work on Agile Materials & Technologies, Inc. and Optiva, Inc. She is an independent business consultant assessing and advising on early stage, technology start-ups for venture capital companies. From 2000 to 2002, she served in the Office of the Executive Vice Provost of Columbia University as Director of the Columbia University Nanotechnology Initiative and as Director for Research and Technology Initiatives. From 1998 to 2000, she served in the White House Office of Science and Technology Policy as a Senior Policy Analyst involved in the National Nanotechnology Initiative. From 1997 to 1998, she was a Science Policy Coordinator for Sandia National Laboratories. From 1995 to 1996, she served in the office of Senator Joseph Lieberman as Legislative Assistant, Congressional Science and Engineering Fellow. She may be considered to be an "interested person" of the Company because of the consulting work she does for us.

Lori D. Pressman. Ms. Pressman has served as a member of our board of directors since March 2002. She has served as a consultant to us on tiny technology, intellectual property and in our due diligence work on Chlorogen, Inc., Continuum Photonics, Inc., NanoOpto Corporation, Nanopharma Corp., Nanosys, Inc., Nantero, Inc. and NeoPhotonics Corporation. She also acts as an observer for us at board meetings of certain investee companies in the Boston area. She is a business consultant providing advisory services to start-ups and venture capital companies. She consults internationally on technology transfer practices and metrics for non-profit and government organizations. From 1999 to 2001, she was Chair of the Survey Statistics and Metrics Committee of the Association of University Technology Managers. From September 1989 to July 2000, she was employed by MIT in its Technology Licensing Office. She served as its Technology Licensing Officer from 1989 to 1995 and as Assistant Director from 1996 to 2000. From September 1984 to September 1989, she was Senior Development Engineer at Lasertron, Inc. She may be considered to be an "interested person" of the Company because of the consulting work she does for us.

Independent Directors:

C. Wayne Bardin. Dr. Bardin has served as a member of our board of directors since December 1994. From 1998 to 2003, he served as President of Thyreos Corp., a privately held, start-up pharmaceutical company. From 1978 through 1996, he was Vice President of The Population Council. Dr. Bardin's professional appointments have included: Professor of Medicine, Chief of the Division of Endocrinology, The Milton S. Hershey Medical Center of Pennsylvania State University and Senior Investigator, Endocrinology Branch, National Cancer Institute. He has also served as a consultant to several pharmaceutical companies. He has been appointed to the editorial boards of 15 journals. He has also served on national and international committees and boards for the National Institutes of Health, World Health Organization, The Ford Foundation and numerous scientific societies.

Phillip A. Bauman. Dr. Bauman has served as a member of our board of directors since February 1998. He is Senior Attending in Orthopaedic Surgery at St. Luke's/Roosevelt Hospital Center in Manhattan and has served as an elected member of the executive committee of the Medical Board since 2000. He has been Assistant Professor of Orthopaedic Surgery at Columbia University since 1998 and a Vice President of Orthopaedic Associates of New York since 1994. He was elected a fellow of the American Academy of Orthopaedic Surgeons in 1991. He is an active member of the American Orthopaedic Society for Sports Medicine, the New York State Society of Orthopaedic Surgeons and the American Medical Association.

G. Morgan Browne. Mr. Browne has served as a member of our board of directors since June 1992. Mr. Browne has served since January 2001 as Chief Financial Officer of Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. From 1985 to 2001, he was the Administrative Director of Cold Spring Harbor Laboratory. In prior years, he was active in the management of numerous scientifically based companies as an officer, as an individual consultant and as an associate of Laurent Oppenheim Associates, Industrial Management Consultants. He is a Director of OSI Pharmaceuticals, Inc., a publicly held company principally engaged in drug discovery based on gene transcription. He was a founding director of the New York Biotechnology Association and a founding director of the Long Island Research Institute.

Dugald A. Fletcher. Mr. Fletcher has served as a member of our board of directors since 1996. He has served as President of Fletcher & Company, Inc., a management consulting firm since 1984. Until the end of 1997, he was Chairman of Binnings Building Products Company, Inc. Mr. Fletcher's previous business appointments include: adviser to Gabelli/Rosenthal LP, a leveraged buyout fund; Chairman of Keller Industries, building and consumer products; Senior Vice President of Booz-Allen & Hamilton; President of Booz-Allen Acquisition Services; Executive Vice President and a Director of Paine Webber, Inc.; and President of Baker, Weeks and Co., Inc., a New York Stock Exchange member firm. He is currently a Trustee of the Gabelli Growth Fund and a Director of the Gabelli Convertible and Income Securities Fund, Inc.

Glenn E. Mayer. Mr. Mayer has served as a member of our board of directors since 1981. In May 2001, he joined Jesup & Lamont Securities Co. as a Senior Vice President. From December 1991 to May 2001, he was a Senior Vice President of Reich & Company, a division of Fahnestock & Company, Inc., a member firm of the New York Stock Exchange. For 15 years prior to that, he was employed by Jesup & Lamont Securities Co. and its successor firms, in the Corporate Finance department.

Mark A. Parsells. Mr. Parsells has served as a member of our board of directors since November 2003. He is the Chairman, President and Chief Executive Officer of Fusura LLC, an AIG company that is an Internet-based, direct to consumer auto insurance business. He graduated from Emory University (BA), Cornell University (MBA) and Vlerick Leuven Gent Business School (MBA). Previously, he was President and Chief Operating Officer of Citibank Online, worked in executive positions for Bank One and American Express and acted as Special Assistant to U.S. Senator John Heinz.

Charles E. Ramsey. Mr. Ramsey has served as a member of our board of directors since October 2002. He is a retired founder and principal of Ramsey/Beirne Associates, Inc., an executive search firm that specialized in recruiting top officers for high technology companies, many of which were backed by venture capital. An active investor, he is a director of three privately held companies, including Experion Systems, Inc., in which we own an equity interest. He works on construction projects in Nicaragua as a member of the Nicaraguan Initiative Committee for the Presbyterian Churches of the Hudson River and as Chair of Bridges to Community, a non-governmental organization dedicated to construction projects in Nicaragua.

James E. Roberts. Mr. Roberts has served as a member of our board of directors since 1995. Since 2002, he has been Executive Vice President and Chief Underwriting Officer of the Reinsurance Division of Alea North America Company. From October 1999 to November 2002, he was Chairman and Chief Executive Officer of the Insurance Corporation of New York, Dakota Specialty Insurance Company, and Recor Insurance Company Inc., all members of the Trenwick Group, Ltd. From October 1999 to March 2000, he served as Vice Chairman of Chartwell Reinsurance Company. Prior to assuming those positions, he was Vice Chairman of Trenwick America Reinsurance Corporation from May 1995 to March 2000.

Committees of the Board of Directors

Our board of directors maintains an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating Committee, a Valuation Committee, a Pricing Committee and an Ad Hoc Long-Term Planning Committee. All of the members of each committee other than Mr. Harris (who sits on the Executive Committee) are non-interested directors (as defined in Section 2(a)(19) of the 1940 Act).

The Executive Committee has and may exercise those rights, powers and authority that the board of directors from time to time grants to it, except where action by the full board is required by statute, an order of the SEC or our charter or bylaws. The Executive Committee did not meet as a separate committee and did not act by unanimous written consent in 2002. The members of the Executive Committee are Messrs. Harris (Chairman), Roberts and Mayer and Dr. Bardin.

The Audit Committee operates pursuant to a charter. The charter was approved by the board of directors on March 13, 2003. The charter was revised on November 13, 2003 and was approved by the Audit Committee, subject to approval by the board of directors. The charter sets forth the responsibilities of the Audit Committee. The Audit Committee's

responsibilities include recommending the selection of our independent public accountants, reviewing with the independent public accountants the planning, scope and results of their audit and our financial statements and the fees for services performed, reviewing with the independent public accountants the adequacy of internal control systems, reviewing our annual financial statements and receiving our audit reports and financial statements. The Audit Committee met four times during 2002. The members of the Audit Committee are Messrs. Fletcher (Chairman) and Mayer and Dr. Bauman, all of whom are considered independent under the rules promulgated by the Nasdaq National Market.

The Compensation Committee determines the compensation for our executive officers and the amount of salary and bonus to be included in the compensation package for each of our officers and employees. The Compensation Committee met one time during 2002. The members of the Compensation Committee are Messrs. Roberts (Chairman), Browne and Ramsey and Dr. Bauman.

The Nominating Committee recommends candidates for election as directors to the board of directors and makes recommendations to the board as to our corporate governance policies. The Nominating Committee met four times during 2002. The members of the Nominating Committee are Messrs. Browne (Chairman) and Ramsey and Drs. Bauman and Bardin.

The Valuation Committee reviews and approves the valuation of our assets, from time to time, as prescribed by the 1940 Act, pursuant to the guidelines established by our board of directors. The Valuation Committee met four times during 2002. The members of the Valuation Committee are Messrs. Fletcher (Chairman), Browne and Roberts and Dr. Bardin.

The Pricing Committee was established by the board of directors on October 21, 2003. The Pricing Committee is responsible for approving the price of the offering of our shares of stock, approving the number of shares being offered, providing final approval of the underwriting agreement and handling any other details as are necessary to effect the transaction. The Pricing Committee will cease to exist following the completion of the offering of our shares of stock. The members of the Pricing Committee are Messrs. Harris (Chairman), Fletcher and Mayer.

The board of directors approved the appointment of an Ad Hoc Long-Term Planning Committee on February 5, 2003, which will act as an advisory committee to the board. The members of the Ad Hoc Long-Term Planning Committee are Messrs. Browne (Chairman), Mayer and Ramsey and Dr. Bardin.

The following table sets forth the dollar range of equity securities beneficially owned by each director as of December 31, 2002.

Name of Director	Dollar Range of Equity Securities		
	Beneficially Owned (1) (2)(3)		
Dr. C. Wayne Bardin	\$50,001 - \$100,000		
Dr. Phillip A. Bauman	\$50,001 - \$100,000		
G. Morgan Browne	\$50,001 - \$100,000		
Dugald A. Fletcher	\$10,001 - \$50,000		
Glenn E. Mayer	Over \$100,000		
Charles E. Ramsey	\$50,001 - \$100,000		
James E. Roberts	\$10,001 - \$50,000		
Charles E. Harris (4)	Over \$100,000		
Dr. Kelly S. Kirkpatrick (5)	\$1 - \$10,000		
Lori D. Pressman (5)	\$1 - \$10,000		

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the 1934 Act.

(2) The dollar ranges are: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 and over \$100,000.

(3) The dollar ranges are based on the price of the equity securities as of December 31, 2002.

(4) Denotes an individual who is an "interested person" as defined in the 1940 Act.

- (5) Denotes an individual who may be considered an "interested person" because of consulting work performed for us.

Principal Shareholders

Set forth below is information as of November 30, 2003 with respect to the beneficial ownership of our common stock by (i) each person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of the common stock, (ii) each of our directors and (iii) all of our directors and executive officers as a group. Except as otherwise indicated, to our knowledge, all shares are beneficially owned and investment and voting power is held by the persons named as owners. Except for holdings by directors and executive officers, the information in the table below is from publicly available information that may be as of dates earlier than November 30, 2003. At this time, we are unaware of any shareholder owning 5% or more of the outstanding shares of common stock other than the ones noted below. Unless otherwise provided, the address of each holder is c/o Harris & Harris Group, Inc., 111 West 57th Street, Suite 1100, New York, New York 10019.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Common Shares Owned
<S>	<C>	<C>
Directors and Executive Officers:		
Charles E. and Susan T. Harris.....	1,050,893(1)	9.1
Dr. C. Wayne Bardin.....	20,828(2)	*
Dr. Phillip A. Bauman.....	22,151(3)	*
G. Morgan Browne.....	34,172	*
Dugald A. Fletcher.....	12,620	*
Douglas W. Jamison.....	--	*
Dr. Kelly S. Kirkpatrick.....	2,837	*
Glenn E. Mayer.....	100,000	*
Mel P. Melsheimer.....	80,210(4)	*
Lori D. Pressman.....	3,400	*
Charles E. Ramsey	27,666	
James E. Roberts.....	15,811	*
Helene Shavin.....	3,000	*
All directors and executive officers as a group (14 persons).....	1,373,588	11.9
5% Shareholders:		
Estate of Edwin S. Marks 135 East 57th Street New York, New York 10022.....	656,834	5.7
Jonathan Rothschild c/o Arterio, Inc. 1061-B Shary Circle Concord, California 94518.....	795,043	6.9
Masters Capital Management LLC/Michael Masters(5) 3060 Peachtree Road, N.E., Suite 1815 Atlanta, Georgia 30305.....	800,000(6)	7.0

* Less than 1%.

- (1) Includes 1,039,559 shares owned by Mrs. Harris and 11,334 shares owned by Mr. Harris.
- (2) Includes 4,732 shares owned by Bardin LLC for the Bardin LLC Profit-Sharing Keogh.
- (3) Includes 5,637 shares owned by Ms. Milbry C. Polk, Dr. Bauman's wife; 100 shares owned by Adelaide Polk-Bauman, Dr. Bauman's daughter; 100 shares owned by Milbry Polk-Bauman, Dr. Bauman's daughter; and 100

shares owned by Mary Polk-Bauman, Dr. Bauman's daughter. Ms. Milbry C. Polk is the custodian for the accounts of the three children.

- (4) Includes 16,668 shares which are owned jointly by Mel P. Melsheimer and his wife.
- (5) Pursuant to a Schedule 13G dated August 6, 2002, Masters Capital Management LLC ("Masters") and Michael Masters beneficially owned 1,000,000 shares and Marlin Fund Offshore, Ltd. beneficially owned 600,000 shares (all with shared voting and dispositive power). A Form 13F filed on November 14, 2003 by Masters indicated that it beneficially owned 800,000 shares.
- (6) See Footnote 5.

Remuneration of Directors and Others

The following table sets forth the compensation paid by us for the fiscal year ended December 31, 2002 to our directors and others. During the fiscal year ended December 31, 2002, we did not pay any pension or retirement benefits.

<TABLE>

<CAPTION>

Name of Director	Total Compensation Paid to	
	Aggregate Compensation (\$)	Directors (\$)
<S>	<C>	<C>
Dr. C. Wayne Bardin	16,000	16,000
Dr. Phillip A. Bauman	20,000	20,000
G. Morgan Browne(1)	20,461	20,461
Harry E. Ekblom(2)	17,781	17,781
Dugald A. Fletcher	17,000	17,000
Dr. Kelly S. Kirkpatrick(3)	48,489	48,489
Glenn E. Mayer	17,000	17,000
Lori D. Pressman(4)	72,440	72,440
Charles E. Ramsey	2,242	2,242
James E. Roberts	17,000	17,000
Charles E. Harris(5)	0	0

</TABLE>

- (1) Includes \$461 for reimbursement for travel expenses to attend board meetings.
- (2) Includes \$2,039 for reimbursement for travel expenses to attend board meetings.
- (3) Includes \$2,696 for reimbursement for travel expenses to attend board meetings and \$33,906 for consulting services. Ms. Kirkpatrick may be considered an "interested person" because of consulting work performed for us.
- (4) Includes \$953 for reimbursement for travel expenses to attend board meetings and \$59,825 for consulting services. Ms. Pressman may be considered an "interested person" because of consulting work performed for us.
- (5) Mr. Harris is an "interested person" as defined in the 1940 Act.

Effective June 18, 1998, directors who were not officers received \$1,000 for each meeting of the board of directors and \$1,000 for each committee meeting they attended in addition to a monthly retainer of \$500. Prior to June 18, 1998, the directors were paid \$500 for committee meetings and no monthly retainer. We also reimburse our directors for travel, lodging and related expenses they incur in attending board and committee meetings. The total compensation and reimbursement for expenses paid to all directors in 2002 was \$154,682.

In 1998, the board of directors approved that effective January 1, 1998, 50% of all director fees be used to purchase our common stock from us. However, effective March 1, 1999, the board of directors approved that directors purchase our common stock in the open market, rather than from us. In 2001, the outside directors (i.e., all directors except Mr. Harris) bought a total of 7,944 shares in the open market. In 2002, the outside directors bought 9,524 shares in the open market and 43,426 shares through exercise of rights in a public offering of our common stock.

Remuneration of Chief Executive Officer and Other Executive Officers

The following table sets forth a summary for each of the last three years ended December 31 of the cash and non-cash compensation paid to our chief executive officer and our other executive officers.

<TABLE>
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Name and Principal Position	Annual Compensation				
	Year	Salary (\$)	Other Annual Bonus (\$)(1)	All Other Compensation (\$)(2)	Compensation (\$)(3)
<S>	<C>	<C>	<C>	<C>	<C>
Charles E. Harris	2002	221,217	10,503	46,570	165,468
Chairman of the board & Chief Executive Officer(4)	2001	215,510	0	48,453	232,000
	2000	208,315	1,600,287	43,267	224,805
Mel P. Melsheimer	2002	250,327	3,224	0	12,000
President, Chief Operating Officer, Chief Financial Officer, Treasurer & Chief Compliance Officer	2001	243,869	0	0	10,500
	2000	235,727	491,227	0	10,500
Helene B. Shavin	2002	85,353	1,161	0	11,000
Controller	2001	13,333	0	0	1,867
Susan T. Harris	2002	12,703	0	0	2,332
Secretary	2001	12,376	0	0	1,578
Douglas W. Jamison (5)	2002	35,936	0	0	1,050
Vice President					

- (1) For 2002, these amounts represent the approximate amounts earned as a result of realized gains during the year ended December 31, 2002 under the Harris & Harris Group, Inc. Employee Profit-Sharing Plan. For 2000, these amounts represent the actual amounts earned for the year ended December 31, 2000 and paid out in 2001. You may find more information on our Employee Profit-Sharing Plan under Incentive Compensation Plans.
- (2) Other than those for Mr. Harris, amounts of "Other Annual Compensation" earned by the named executive officers for the periods presented did not meet the threshold reporting requirements.
- (3) Except for Mr. Harris, amounts reported represent our contributions on behalf of the named executive to the Harris & Harris Group, Inc. 401(k) Plan. Mr. Harris's 2002 "All Other Compensation" consisted of: \$12,000 401(k) Plan employer contribution; \$147,478 for his 2002 SERP contribution; and \$5,990 in life insurance premiums for the benefit of his beneficiaries. An additional \$73,730 was accrued with respect to 2002 for Mr. Harris's SERP account, but was not paid until 2003.
- (4) Mr. Harris has an employment agreement with us.
- (5) Because Mr. Jamison joined us in September 2002, his salary reflects partial compensation for 2002.

Incentive Compensation Plans

As of January 1, 1998, we began implementing the Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 1998 Plan, which provided for profit sharing equal to 20% of our net realized income as reflected on the Consolidated Statements of Operations for that year, less nonqualifying gains, if any. We terminated the 1998 Plan as of December 31, 1999, subject to the payment of any amounts owed on the 1999 realized gains under the 1998 Plan.

In March 2000, we paid out 90% of the profit sharing in the amount of \$1,024,696 on the 1999 realized gains; the remaining 10% or \$113,855 was paid out in September 2000, upon the completion and filing of our 1999 federal tax return.

As of January 1, 2000, we implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the Plan, which provides

for profit sharing by our officers and employees equal to 20% of our "qualifying income" for that plan year. For the purposes of the Plan, qualifying income is defined as net realized income as reflected on our consolidated statements of operations for that year, less nonqualifying gains, if any.

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

As soon as practicable following the year-end audit, the Audit Committee will determine whether, and if so how much, qualifying income exists for a plan year. Once determined, 90% of the qualifying income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10% will be paid out after we have filed our federal tax return for that plan year. At December 31, 2002, the distribution amounts for each officer and employee were as follows: Charles E. Harris, 13.790%; Mel P. Melsheimer, 4.233%; Helene B. Shavin, 1.524%; and Jacqueline M. Matthews, 0.453%, which together equals 20%. In one case, for a former employee who left other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to the participant.

On April 26, 2000, our shareholders approved the performance goals under the Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2000. The Code generally provides that a public company such as we are may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to the officer/employee exceeds \$1,000,000 in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by our shareholders.

As of January 1, 2003, we implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 2002 Plan.

On October 15, 2002, our shareholders approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2003.

Under the 2002 Plan, our net realized income includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or loss carry-overs from other years, which we refer to as qualifying income.

Under the 2002 Plan, awards previously granted to the four current Participants (Messrs. Harris and Melsheimer and Ms. Shavin and Matthews, herein referred to as the "grandfathered participants") will be reduced by 10% with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25% with respect to "Tiny Technology Investments" (as defined in the 2002 Plan) and will become permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which the awards are reduced will be allocable and reallocable each year by the Compensation Committee among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by us whether or not the grandfathered participant is still employed by us or is still alive (in the event of death, the grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by us at the end of a plan year in order to participate in profit-sharing on our investments with respect to that year.

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which we remain a "business development company" within the meaning of the 1940 Act be

greater than 20% of our "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed that amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Compensation Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be further modified. Nothing in the 2002 Plan will preclude the Compensation Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee currently are as follows: Charles E. Harris, 10.790%; Mel P. Melsheimer, 4.233%; Douglas W. Jamison, 3.0%; Helene B. Shavin, 1.524%; and Jacqueline M. Matthews, 0.453%, which together equals 20%.

The grandfathered participations are set forth below:

<TABLE>
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Grandfathered Participations		
Name of Officer/Employee	Non-Tiny Technology (%)	Tiny Technology (%)
<S>	<C>	<C>
Charles E. Harris	12.41100	10.34250
Mel P. Melsheimer	3.80970	3.17475
Helene B. Shavin	1.37160	1.14300
Jacqueline M. Matthews	0.40770	0.33975
TOTAL	18.00000	15.00000

Accordingly, an additional 2% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently Douglas W. Jamison is allocated 0.80% of the Non-Tiny Technology Grandfathered Participations and 2% of the Tiny Technology Grandfathered Participations.

During 2002, we decreased the profit-sharing accrual by \$163,049, bringing the cumulative accrual under the Plan to \$15,233 at December 31, 2002. The amounts payable under the Plan for net realized income during the year ended December 31, 2002 are \$15,233. We paid out 90% in March 2003 and the remaining 10% upon the completion and filing of our 2002 federal tax return.

Other Information

We are not subject to any material pending or, to our knowledge, threatened legal proceedings.

Our custodian is J.P. Morgan Chase Bank, 345 Park Avenue, New York, New York 10154-1002.

Our transfer and dividend-paying agent is The Bank of New York, 101 Barclay Street, New York, New York 10286.

DIVIDENDS AND DISTRIBUTIONS

As a regulated investment company under the Code, we will not be subject to U.S. federal income tax on our investment company taxable income that we distribute to shareholders, provided that at least 90% of our investment company taxable income for that taxable year is distributed to our shareholders. We may choose to retain our net capital gains for investment and pay the associated federal corporate income tax.

To the extent that we retain any net capital gain, we may pay deemed capital gain dividends to shareholders. If we do pay a deemed capital gain dividend, you will not receive a cash distribution, but instead you will receive a tax credit equal to your proportionate share of the tax paid by us.

When we declare a deemed dividend, our dividend-paying agent will send you an IRS Form 2439 which will reflect receipt of the deemed dividend income and the tax credit. This tax credit, which we pay at the applicable corporate rate, is normally at a higher rate than the rate payable by individual shareholders on the deemed dividend income. The excess credit can be used by the shareholder to offset other taxes due in that year or to generate a tax refund to the shareholder. In addition, each shareholder's tax basis in his shares of common stock is increased by the excess of the capital gain on which we paid taxes over the amount of taxes we paid. See "Taxation."

We did not pay a cash dividend or declare a deemed capital gain dividend for 2002. On January 22, 2002, we announced a deemed capital gain dividend for 2001 of \$0.0875 per share for a total of \$775,620.

TAXATION

Taxation of the Company

We have elected and qualified and intend to continue to qualify to be taxed as a regulated investment company under Subchapter M of the Code. Accordingly, we must, among other things, (a) derive in each taxable year at least 90% of our gross income (including tax-exempt interest) from dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gain from options, futures and forward contracts) derived with respect to our business of investing in stock, securities or currencies; and (b) diversify our holdings so that, at the end of each fiscal quarter (i) at least 50% of the market value of our total assets is represented by cash and cash items, U.S. Government securities, the securities of other regulated investment companies and other securities, with other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of our total assets and not more than 10% of the outstanding voting securities of any issuer (subject to the exception described below), and (ii) not more than 25% of the market value of our total assets is invested in the securities of any issuer (other than U.S. Government securities and the securities of other regulated investment companies) or of any two or more issuers that we control and that are determined to be engaged in the same business or similar or related trades or businesses.

In the case of a regulated investment company which furnishes capital to development corporations, there is an exception to the rule relating to the diversification of investments described above. This exception is available only to registered management investment companies which the SEC determines to be principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available ("SEC Certification"). We have received SEC Certification since 1999, including for 2002, but it is possible that we may not receive SEC Certification in future years. Pursuant to the SEC Certification, we are generally entitled to include, in the computation of the 50% value of our assets (described in (b)(i) above), the value of any securities of an issuer, whether or not we own more than 10% of the outstanding voting securities of the issuer, if the basis of the securities, when added to our basis of any other securities of the issuer that we own, does not exceed 5% of the value of our total assets.

As a regulated investment company, in any fiscal year with respect to which we distribute at least 90% of the sum of our (i) investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses and other taxable income other than any net capital gain reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) net tax exempt interest (the excess of its gross tax exempt interest over certain disallowed deductions), we (but not our shareholders) generally will not be subject to U.S. federal income tax on investment company taxable income and net capital gains that we distribute to shareholders. To the extent that we retain our net capital gains for investment, we will be subject to U.S. federal income tax. We may choose to retain our net capital gains for investment and pay the associated federal corporate income tax.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4%

excise tax payable by us. To avoid this tax, we must distribute (or be deemed to have distributed) during each calendar year an amount equal to the sum of:

- (1) at least 98% of our ordinary income (not taking into account any capital gains or losses) for the calendar year;
- (2) at least 98% of our capital gains in excess of our capital losses (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made by a company with a November or December year-end to use the company's fiscal year); and
- (3) any undistributed amounts from previous years on which we paid no U.S. federal income tax.

While we intend to distribute any income and capital gains in the manner necessary to minimize imposition of the 4% excise tax, sufficient amounts of our taxable income and capital gains may not be distributed to avoid entirely the imposition of the tax. In that event, we will be liable for the tax only on the amount by which we do not meet the foregoing distribution requirement.

If in any particular taxable year, we do not qualify as a regulated investment company, all of our taxable income (including its net capital gains) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and distributions will be taxable to the shareholders as ordinary dividends to the extent of our current and accumulated earnings and profits.

We may decide to be taxed as a corporation even if we would otherwise qualify as a regulated investment company.

Company Investments

We may make certain investments which would subject us to special provisions of the Code that, among other things, may affect the character of the gains or losses realized by us and require us to recognize income or gain without receiving cash with which to make distributions.

In the event we invest in foreign securities, we may be subject to withholding and other foreign taxes with respect to those securities. We do not expect to satisfy the requirement to pass through to the shareholders their share of the foreign taxes paid by us.

Due to our expected investments, in general, distributions will not be eligible for the dividends received deduction allowed to corporate shareholders and will not qualify for the reduced rate of tax for qualified dividend income allowed to individuals.

Taxation of Shareholders

Distributions we pay to you from our ordinary income or from an excess of net short-term capital gains over net long-term capital losses (together referred to hereinafter as "ordinary income dividends") are taxable to you as ordinary income to the extent of our earnings and profits. Distributions made to you from an excess of net long-term capital gains over net short-term capital losses ("capital gain dividends"), including capital gain dividends credited to you but retained by us, are taxable to you as long-term capital gains, regardless of the length of time you have owned our shares. Distributions in excess of our earnings and profits will first reduce the adjusted tax basis of your shares and, after the adjusted tax basis is reduced to zero, will constitute capital gains to you (assuming the shares are held as a capital asset). Generally, you will be provided with a written notice designating the amount of any (i) ordinary income dividends no later than 30 days after the close of the taxable year, and (ii) capital gain dividends or other distributions no later than 60 days after the close of the taxable year.

In the event that we retain any net capital gains, we may designate the retained amounts as undistributed capital gains in a notice to our shareholders. If a designation is made, shareholders would include in income, as long-term capital gains, their proportionate share of the undistributed amounts, but would be allowed a credit or refund, as the case may be, for

their proportionate share of the corporate tax paid by us. In addition, the tax basis of shares owned by a shareholder would be increased by an amount equal to the difference between (i) the amount included in the shareholder's income as long-term capital gains and (ii) the shareholder's proportionate share of the corporate tax paid by us.

Dividends and other taxable distributions are taxable to you even though they are reinvested in additional shares of our common stock. If we pay you a dividend in January which was declared in the previous October, November or December to shareholders of record on a specified date in one of these months, then the dividend will be treated for tax purposes as being paid by us and received by you on December 31 of the year in which the dividend was declared.

A shareholder will realize gain or loss on the sale or exchange of our common shares in an amount equal to the difference between the shareholder's adjusted basis in the shares sold or exchanged and the amount realized on their disposition. Generally, gain recognized by a shareholder on the sale or other disposition of our common shares will result in capital gain or loss to you, and will be a long-term capital gain or loss if the shares have been held for more than one year at the time of sale. Any loss upon the sale or exchange of our shares held for six months or less will be treated as a long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you. A loss realized on a sale or exchange of our shares will be disallowed if other substantially identical shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In this case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

In general, federal withholding taxes at a 30% rate (or a lower rate pursuant to a tax treaty) will apply to distributions to shareholders (except to those distributions designated by us as capital gain dividends) that are nonresident aliens or foreign partnerships, trusts or corporations (a "non-U.S. investor"). Different tax consequences may result if a non-U.S. investor is engaged in a trade or business in the United States or, in the case of an individual, is present in the United States for 183 or more days during a taxable year and certain other conditions are met.

Backup Withholding

We are required in some circumstances to backup withhold on taxable dividends and other payments paid to non-corporate holders of our shares who do not furnish us with their correct taxpayer identification number and certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the Internal Revenue Service.

The foregoing is a general discussion of the provisions of the Code and the Treasury regulations in effect as they directly govern our taxation and our shareholders. These provisions are subject to change by legislative or administrative action, and any change may be retroactive. The discussion does not purport to deal with all of the U.S. federal income tax consequences applicable to us, or which may be important to particular shareholders in light of their individual investment circumstances or to some types of shareholders subject to special tax rules, such as financial institutions, broker-dealers, insurance companies, tax-exempt organizations, partnerships or other pass-through entities, persons holding notes in connection with a hedging, straddle, conversion or other integrated transaction, persons engaged in a trade or business in the United States or persons who have ceased to be U.S. citizens or to be taxed as resident aliens. Shareholders are urged to consult their tax advisers regarding specific questions as to U.S. federal, foreign, state and local income or other taxes.

CERTAIN GOVERNMENT REGULATIONS

A business development company is regulated by the 1940 Act. A business development company must be organized in the United States for the purpose of investing in or lending to primarily private companies and making managerial assistance available to them. A business development company may

use capital provided by public shareholders and from other sources to invest in private investments. A business development company provides shareholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing primarily in privately owned companies.

As a business development company, we may not acquire any assets other than "qualifying assets" unless, at the time we make the acquisition, the value of our qualifying assets represents at least 70% of the value of our total assets. The principal categories of qualifying assets relevant to our business are:

- o securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company;
- o securities received in exchange for or distributed with respect to securities described in the bullet above or pursuant to the exercise of options, warrants or rights relating to the securities; and
- o cash, cash items, government securities or high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of investment.

An eligible portfolio company is generally a domestic company that is not an investment company (other than a small business investment company wholly owned by a business development company) and that:

- o does not have a class of securities registered on an exchange or a class of securities with respect to which a broker may extend margin credit;
- o is actively controlled by the business development company and has an affiliate of a business development company on its board of directors; or
- o meets other criteria as may be established by the SEC.

Control under the 1940 Act is presumed to exist where a business development company beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

To include securities described above as qualifying assets for the purpose of the 70% test, a business development company must make available to the issuer of those securities (whether directly or through cooperating parties) significant managerial assistance such as providing significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company or making loans to a portfolio company. We offer to provide managerial assistance to each of our portfolio companies.

As a business development company, we are entitled to issue senior securities in the form of stock or indebtedness, including bank borrowings and debt securities, as long as our senior securities have an asset coverage of at least 200% immediately after each issuance. See "Risk Factors."

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of members of our board of directors who are not interested persons and, in some cases, may have to seek prior approval from the SEC.

We are periodically examined by the SEC for compliance with the 1940 Act. Inspections do not insure compliance with the laws.

As with other companies regulated by the 1940 Act, a business development company must adhere to substantive regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties

involved in the conduct of that person's office.

We maintain a code of ethics that establishes procedures for personal investment and restricts some transactions by our personnel. Our code of ethics generally does not permit investment by our employees in private securities that may be purchased or held by us. The code of ethics is filed as an exhibit to our registration statement of which this prospectus is a part. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at (800) SEC-0330. In addition, the code of ethics is available on the EDGAR Database on the SEC Internet site at <http://www.sec.gov>. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Section, 450 5th Street, N.W., Washington, D.C. 20549.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company unless authorized by vote of a "majority of the outstanding voting securities," as defined in the 1940 Act, of our shares. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of the company's shares present at a meeting if more than 50% of the outstanding shares of the company are present and represented by proxy or (ii) more than 50% of the outstanding shares of the company.

CAPITALIZATION

We are authorized to issue 25,000,000 shares of common stock, par value \$0.01 per share, and 2,000,000 shares of preferred stock, par value \$0.10 per share. Each share within a particular class or series thereof has equal voting, dividend, distribution and liquidation rights. When issued, in accordance with the terms thereof, shares of common stock will be fully paid and non-assessable. All shares issued as a result of exercise of the rights will be newly issued shares. Shares of common stock are not redeemable and have no preemptive, conversion or cumulative voting rights.

The following table shows the number of shares of (i) capital stock authorized, (ii) the amount held by us or for our own account and (iii) capital stock outstanding for each class of our authorized securities as of October 28, 2003.

<TABLE>
<CAPTION>

Title of Class	Amount Held by Company or		
	Amount Authorized	for its Own Account	Amount Outstanding
<S> Common Stock	<C> 25,000,000	<C> 1,828,740	<C> 11,498,845
Preferred Stock	2,000,000	0	0

Issuance of Preferred Stock

Our board of directors is authorized by our articles of incorporation to issue up to 2,000,000 shares of preferred stock having a par value of \$0.10 per share. The board of directors is authorized to divide the preferred stock into one or more series and to determine the terms of each series, including but not limited to the voting rights, redemption provisions, dividend rate and liquidation preference. Any terms must be consistent with the requirements of the 1940 Act. The 1940 Act currently prohibits us from issuing any preferred stock if after giving effect to the issuance the value of our total assets, less all liabilities and indebtedness other than senior securities, would be less than 200% of the aggregate amount of senior securities representing indebtedness plus the aggregate involuntary liquidation value of our preferred stock (other than up to 5% borrowings for temporary purposes). Leveraging with preferred stock raises the same general potential for loss or gain and other risks as does leveraging with borrowings described above.

Options and Warrants

We have no options or warrants outstanding. Under the 1940 Act, we cannot issue options and/or warrants for more than 25% of our outstanding voting securities.

UNDERWRITING

Subject to the terms and conditions of an underwriting agreement dated , 2003, the underwriter named below has agreed to purchase from us the number of shares of common stock set forth opposite its name below:

Underwriter	Number of Shares
----- Punk, Ziegel & Company, L.P.	-----

The underwriting agreement provides that the obligations of the underwriter are subject to certain conditions precedent, including the absence of any significant negative change in our business and the receipt of certain certificates, opinions and letters from us and our attorneys and independent accountants. The nature of the underwriter's obligation is such that they are committed to purchase all shares of common stock offered hereby if any of the shares are purchased.

We have granted the underwriter the option, exercisable for 30 days after the date of this prospectus, to purchase up to an aggregate of shares of our common stock at the public offering price, less the underwriting discounts and commissions set forth on the cover page of this prospectus. The underwriter may exercise this option solely to cover unfilled customer orders, if any, in connection with the sale of our common stock.

The following table summarizes the underwriting discounts and commissions to be paid by us to the underwriter for each share of our common stock and in total. This information is presented assuming either no exercise or full exercise of the underwriter's option to purchase additional shares of our common stock.

Per Share	Aggregate Without Option	Aggregate With Option
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Underwriting discounts and commissions payable by us

We have been advised that the underwriter proposes to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus and to some dealers at that price less a concession not in excess of \$ per share. The underwriter may allow, and these dealers may re-allow, a concession not in excess of \$ per share to certain other dealers. The offering of the shares of common stock is made for delivery when, as and if accepted by the underwriter and subject to prior sale and to withdrawal, cancellation or modification of this offering without notice. The underwriter reserves the right to reject an order for the purchase of shares in whole or in part.

We and our most senior executive officers have agreed that for a period of 90 days after the date of this prospectus, we and they will not, without the prior written consent of Punk, Ziegel & Company, directly or indirectly: offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of or otherwise dispose of or transfer (subject to certain exceptions) any shares of our common stock or securities convertible into or exchangeable or exercisable for shares of our common stock, whether now owned or acquired after the date of this prospectus by any person or with respect to which any person acquires after the date of this prospectus the power of disposition, or file any registration statement under the Securities Act with respect to any of the foregoing, or enter into any swap or other agreement or any other agreement that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of shares of our common stock whether any swap or transaction is to be settled by delivery of our common stock or other securities, in cash or otherwise.

At the request of the Company, the Underwriter has reserved for sale, at the public offering price, up to _____ shares offered hereby for directors, officers and employees of the Company. The number of shares of Common Stock available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the Underwriter to the general public on the same basis as the other shares offered hereby.

Until the offering of the shares of common stock is completed, applicable rules of the Securities and Exchange Commission may limit the ability of the underwriter and certain selling group members to bid for and purchase the common stock. As an exception to these rules, the underwriter may engage in certain transactions that stabilize the price of the common stock. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriter of a greater number of shares of common stock than it is required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

The underwriter also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriter a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

These activities by the underwriter may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriter without notice at any time. These transactions may be effected on the Nasdaq National Market, or otherwise.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the underwriter may be required to make in respect thereof.

LEGAL MATTERS

Certain legal matters will be passed on by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, our special counsel in connection with the offering of common stock. Certain legal matters in connection with this offering will be passed upon for the underwriter by Greenberg Traurig LLP, Miami, Florida.

EXPERTS

Our audited financial statements as of December 31, 2002 and for the year then ended have been incorporated by reference from our 2002 Annual Report on Form 10-K in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing. PricewaterhouseCoopers LLP is located at 1177 Avenue of the Americas, New York, New York 10036. At the 2003 annual meeting, shareholders ratified the appointment of PricewaterhouseCoopers LLP as our independent accountants to audit our December 31, 2003 financial statements.

The financial statements, as of December 31, 2000 and 2001 included in our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference in this prospectus were audited by Arthur Andersen LLP, independent public accountant, as indicated in their report with respect thereto, are included herein in reliance upon the authority of said firm as experts in giving said report. Arthur Andersen LLP has not consented to the inclusion of their report in this prospectus, and we have not obtained their consent to do so in reliance upon Rule 437a of the Securities Act of 1933. Because Arthur Andersen LLP has not consented to the inclusion of their report in this prospectus, you will not be able to recover against Arthur Andersen LLP under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen LLP or any omissions to state a material fact required to be stated therein.

CHANGE IN INDEPENDENT PUBLIC ACCOUNTANTS

On February 26, 2002, our Audit Committee approved the dismissal of Arthur Andersen LLP as our independent public accountants effective upon completion of the December 31, 2001 audit, and appointed PricewaterhouseCoopers LLP to serve as our independent public accountants for the year ending December 31, 2002. The appointment of PricewaterhouseCoopers LLP was ratified at our 2002 annual meeting of stockholders held on October 15, 2002.

Arthur Andersen LLP's reports on our consolidated financial statements for the years ended December 31, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2001 and 2000, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen LLP's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for those years; and there were no reportable events as defined in Item 304(a) (1) (v) of Regulation S-K.

FURTHER INFORMATION

We are subject to the informational requirements of the 1934 Act and in accordance therewith file reports, proxy statements and other information with the SEC. The reports, proxy statements and other information filed by us can be inspected and copied at public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, its Northeast Regional Office, 233 Broadway, New York, New York 10279 and its Chicago Regional Office, Suite 900, 175 West Jackson Boulevard, Chicago, Illinois 60604. You can obtain information on the operation of the Public Reference room by calling the SEC at (800) SEC-0330. The SEC also maintains a website that contains reports, proxy statements, and other information. The address of the SEC's website is <http://www.sec.gov>. Copies of this material may also be obtained from the Public Reference Branch, Office of Consumer Affairs and Information Services of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on the Nasdaq National Market and our reports, proxy statements and other information concerning us can be inspected and copied at the library of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

PRIVACY PRINCIPLES OF THE COMPANY

We are committed to maintaining the privacy of our shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in some cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our shareholders, although some non-public personal information of our shareholders may become available to us. We do not disclose any non-public personal information about our shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our shareholders to our employees and to employees of our service providers and their affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our shareholders.

HARRIS & HARRIS GROUP, INC.

2,000,000 Shares

Common Stock

PUNK, ZIEGEL & COMPANY

The date of the prospectus is , 2003

Until , all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

This prospectus constitutes a part of a registration statement on Form N-2 (together with all the exhibits and the appendix thereto, the "Registration Statement") filed by us with the SEC under the Securities Act and the 1940 Act. This prospectus does not contain all of the information set forth in the Registration Statement. Reference is hereby made to the Registration Statement and related exhibits for further information with respect to us and the shares offered hereby. Statements contained herein concerning the provisions of documents are necessarily summaries of the material terms of such documents.

No dealer, salesperson or other person has been authorized to give any information or to make any representations not contained in this prospectus. If given or made, any information or representation must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any security other than the shares of common stock offered by this prospectus, nor does it constitute an offer to sell or the solicitation of an offer to buy shares of common stock by anyone in any jurisdiction in which such offer or solicitation would be unlawful.

PART C -- OTHER INFORMATION

Item 24. Financial Statements and Exhibits

(1) Financial Statements - The following financial statements have been incorporated by reference into the Registration Statement:

- (a) Annual Report on Form 10K

Consolidated Statements of Assets and Liabilities for years ended

December 31, 2002, 2001 and 2000

Consolidated Statements of Operations for the years ended December 31, 2002, 2001, and 2000

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001, and 2000

Consolidated Statements of Changes in the Net Assets for the years ended December 31, 2002, 2001, and 2000

Consolidated Schedule of Investments as of December 31, 2002

Footnote to Consolidated Schedule of Investments

Notes to Consolidated Financial Statements

Financial Highlights for the years ended December 31, 2002, 2001, 2000, 1999 and 1998

(b) Quarterly Reports on Form 10Q

Consolidated Statements of Operations for the quarters ended March 31, 2003, June 30, 2003, and September 30, 2003

Consolidated Statements of Cash Flows for the quarters ended March 31, 2003, June 30, 2003, and September 30, 2003

Consolidated Statements of Changes in the Net Assets for the quarters ended March 31, 2003, June 30, 2003, and September 30, 2003

Consolidated Schedule of Investments as of March 31, 2003, June 30, 2003, and September 30, 2003

Footnote to Consolidated Schedule of Investments

Notes to Consolidated Financial Statements

Statements, schedules and historical information other than those listed above have been omitted since they are either not applicable, or not required or the required information is shown in the financial statements or notes thereto.

(2) Exhibits:

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

(b) Restated By-laws of the Company, incorporated by reference to Exhibit 3.1(b) to the Company's Form 10-K for the year ended December 31, 1995 and the Company's Form 10-Q for the quarter ended September 30, 1998.

(c) Not applicable.

(d) Subscription Certificate, Beneficial Owner Listing Certification, Notice of Guaranteed Delivery, DTC Participant Over-Subscription Certificate and Specimen certificate of common stock certificate. The Specimen certificate of common stock certificate is hereby incorporated by reference to Exhibit 4 of the Company's registration statement on Form N-2 filed on October 29, 1992.

(e) Not applicable.

(f) Not applicable.

(g) Not applicable.

(h) Underwriting Agreement between the Company and Punk, Ziegel & Company.(1)

(i) (1) Harris & Harris Group, Inc. Employee Profit-Sharing

Plan, incorporated by reference as Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 1999.

(2) Harris & Harris Group, Inc. Directors Stock Purchase Plan 2001, incorporated by reference as Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2000.

(3) Employment Agreement by and between the Company and Charles E. Harris dated October 19, 1999, incorporated by reference to Exhibit (C) to the Company's Form 8-K filed on October 27, 1999.

(4) Severance Compensation Agreement by and between the Company and Charles E. Harris dated August 15, 1990, incorporated by reference to Exhibit 10 (s) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.

(5) Deferred Compensation Agreement Between Harris & Harris Group, Inc. and Charles E. Harris, incorporated by reference as Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1999.

(6) Trust Under Harris & Harris Group, Inc. Deferred Compensation Agreement, incorporated by reference as Exhibit 10.20 to the Company's Form 10-K for the year ended December 31, 1999.

(7) Form of Indemnification Agreement which has been established with all directors and executive officers of the Company, incorporated by reference as Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 1995.

(j) Harris & Harris Group, Inc. Custodian Agreement with JP Morgan, incorporated by reference to Exhibit 9.1 to the Company's Form 10-K for the year ended December 31, 1995.

(k) (1) Demand Promissory Note, Corporate Certificate-Borrowing, Statement of Purpose for an Extension of Credit Secured by Margin Stock by and among Harris & Harris Group, Inc. and J.P. Morgan incorporated by reference as Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1997.

(2) Stock Purchase Agreement, Standstill Agreement and Termination and Release by and among Harris & Harris Group, Inc. and American Bankers Life Assurance Company of Florida dated May 18, 1995, incorporated by reference as Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 1995.

(l) Opinion letter of Skadden, Arps, Slate, Meagher & Flom, LLP.(1)

(m) Not applicable.

(n) Consent of the Independent Accountant.(1)

(o) Not applicable

(p) Not applicable.

(q) Not applicable.

(r) Code of Ethics under 17j-1 under the 1940 Act.(1)

(1) Filed herewith.

Item 25. Marketing Arrangements

Reference is made to the Form of Underwriting Agreement filed with this registration statement.

Item 26. Other Expenses of Issuance and Distribution

The following table sets forth the expenses to be incurred in connection with this offering described in this Registration Statement:

Registration fees	\$ 1,652
Nasdaq listing fee	\$ 18,500

Printing (other than stock certificates)	\$ 3,750
Accounting fees and expenses	\$ 20,000
Legal fees and expenses	\$350,000
Miscellaneous	\$113,300

Total	\$507,202
	=====

Item 27. Persons Controlled by or Under Common Control with Company

<TABLE>
<CAPTION>

At December 31, 2002	Organized	Percentage of voting securities owned under laws of	by the Registrant
-----	-----	-----	-----
<S>	<C>	<C>	
Harris & Harris Enterprises, Inc.	Delaware	100%	

</TABLE>

Item 28. Number of Holders of Securities (as of December 19, 2003)

Title of class	Number of record holders
-----	-----
Common stock, \$.01 par value	153

The Company was advised by its transfer agent that there were 153 holders of record of the common stock that held the common stock for an estimated 6,700 beneficial owners.

Item 29. Indemnification

Reference is made to the Form of Underwriting Agreement filed with this registration statement.

Article 8 ("Article 8") of our Certificate of Incorporation, as adopted by our board of directors in October 1992, and approved by our shareholders in December, 1992, provides for the indemnification of our directors and officers to the fullest extent permitted by applicable New York law, subject to the applicable provisions of the 1940 Act.

Scope of Indemnification Under New York Law. BCL ss.ss. 721-726 provide that a director or officer of a New York corporation who was or is a party or a threatened party to any threatened, pending or completed action, suit or proceeding (i) shall be entitled to indemnification by the corporation for all expenses of litigation when he is successful on the merits, (ii) may be indemnified by the corporation for judgments, fines, and amounts paid in settlement of, and reasonable expenses incurred in, litigation (other than a derivative suit), even if he is not successful on the merits, if he acted in good faith and for a purpose he reasonably believed to be in or not opposed to the best interest of the corporation (and, in criminal proceedings, had no reasonable cause to believe that his conduct was unlawful), and (iii) may be indemnified by the corporation for amounts paid in settlement and reasonable expenses incurred in a derivative suit (i.e., a suit by a shareholder alleging a breach of a duty owed to the corporation by a director or officer) even if he is not successful on the merits, if he acted in good faith, for a purpose which he believed to be in, or not opposed to, the best interest of the corporation. However, no indemnification may be made in accordance with clause (iii) if he is adjudged liable to the corporation, unless a court determines that, despite the adjudication of liability and in view of all of the circumstances, he is entitled to indemnification. The indemnification described in clauses (ii) and (iii) above and the advancement of litigation expenses, may be made only upon a determination by (i) a majority of a quorum of disinterested directors, (ii) independent legal counsel, or (iii) the shareholders that indemnification is proper because the applicable standard of conduct has been met. In addition, litigation expenses to a director or officer may only be made upon receipt of an undertaking by the director or officer to repay the expenses if it is ultimately determined that he is not entitled to be indemnified. The indemnification and advancement of expenses

provided for by BCL ss.ss. 721-726 are not deemed exclusive of any rights the indemnitee may have under any by-law, agreement, vote of shareholders or disinterested directors, or otherwise. When any action with respect to indemnification of directors is taken by amendment to the by-laws, resolution of directors, or agreement, the corporation must mail a notice of the action taken to its shareholders of record by the earlier of (i) the date of the next annual meeting, or (ii) fifteen months after the date of the action taken.

The foregoing provisions are subject to Section 17(h) of the 1940 Act, which provides that neither the certificate of incorporation or by-laws nor any agreement may protect any director or officer against any liability to the Company or any of its stockholders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of his duties.

The Indemnification Agreements. Pursuant to the Indemnification Agreement, the Company would indemnify the indemnified director or officer (the "Indemnitee") to the fullest extent permitted by New York law as in effect at the time of execution of the Indemnification Agreement and to such fuller extent as New York law may permit in the future, subject in each case to the applicable provisions of the 1940 Act. An Indemnitee would be entitled to receive indemnification against all judgments rendered, fines levied, and other assessments (including amounts paid in settlement of any claims, if approved by the Company), plus all reasonable costs and expenses (including attorneys' fees) incurred in connection with the defense of any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative (an "Action"), related to or arising from (i) any actual or alleged act or omission of the Indemnitee at any time as a director, officer, employee, or agent of the Company or any of its affiliates or subsidiaries, or (ii) the Indemnitee's past, present, or future status as a director, officer, employee or agent of the Company or any of its affiliates or subsidiaries. An Indemnitee would also be entitled to advancement of all reasonable costs and expenses incurred in the defense of any Action upon a finding by a court or an opinion of independent counsel that the Indemnitee is more likely than not to prevail. If the Company makes any payment to the Indemnitee under the Indemnification Agreement and it is ultimately determined that the Indemnitee was not entitled to be indemnified, the Indemnitee would be required to repay the Company for all amounts paid to the Indemnitee under the Indemnification agreement. An Indemnitee would not be entitled to Indemnification or advancement of expenses under the Indemnification Agreement with respect to any proceeding or claim brought by him against the Company.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

We maintain directors' and officers' liability insurance.

Item 30. Business and Other Connections of Investment Adviser

Not applicable, because the Company has no investment adviser.

Item 31. Location of Accounts and Records

Certain accounts, books and other documents required to be maintained by Section 31(a) of the 1940 Act and the Rules promulgated there under are maintained at the offices of the Company at 111 West 57th Street, Suite 1100, New York, New York 10019. Certain accounts, books and other documents pertaining to the Company's subsidiaries are maintained at 111 West 57th Street, Suite 1100, New York, New York 10019.

Item 32. Management Services

None.

Item 33. Undertakings

1. The Company undertakes to suspend the offering of its shares until it amends its prospectus if:

- (1) subsequent to the effective date of this Registration Statement, the net asset value per share declines more than 10 % from its net asset value per share as of the effective date of the Registration Statement; or
- (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

2. The Company undertakes to file a post-effective amendment with certified financial statements showing the initial capital received before accepting subscriptions from more than 25 persons, if the Company proposes to raise its initial capital under Section 14(a)(3) of the Investment Company Act of 1940.

3. Not applicable.

4. The Company hereby undertakes:

- (a) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:
 - (1) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
 - (2) to reflect in the prospectus any facts or events after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and
 - (3) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.
- (b) that for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and
- (c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

5. The Company hereby undertakes:

- (a) that for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Company pursuant to Rule 497(h) under the Securities Act shall be deemed to be part of

this Registration Statement as of the time it was declared effective; and

- (b) that for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

6. Not Applicable.

EXHIBITS

(h) Underwriting Agreement between the Company and Punk, Ziegel & Company

(l) Opinion letter of Skadden, Arps, Slate, Meagher & Flom, LLP

(n) Consent of the Independent Accountant

(r) Code of Ethics under 17j-1 under the 1940 Act

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 19th day of December, 2003.

HARRIS & HARRIS GROUP, INC.

By: /s/ Charles E. Harris

Name: Charles E. Harris
Title: Chairman of the Board and Chief
Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1933, this Registration Statement has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<TABLE>
<CAPTION>

Signature	Title	Date
----- <S> /s/ Charles E. Harris Charles E. Harris	<C> Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	<C> December 19, 2003
----- /s/ Mel P. Melsheimer Mel P. Melsheimer	President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)	December 19, 2003

* Director

Dr. C. Wayne Bardin

* Director

Dr. Phillip A. Bauman

* Director

G. Morgan Browne

* Director

Dugald A. Fletcher

* Director

Dr. Kelly S. Kirkpatrick

* Director

Glenn E. Mayer

* Director

Mark Parsells

* Director

Lori D. Pressman

* Director

Charles E. Ramsey

* Director

James E. Roberts

*By: /s/ Charles E. Harris

Attorney-in-fact

</TABLE>

_____ Shares
HARRIS & HARRIS GROUP, INC.

Common Stock

FORM OF
UNDERWRITING AGREEMENT

New York, New York
_____, 2003

Punk, Ziegel & Company
520 Madison Avenue
New York, New York 10022

Ladies and Gentlemen:

Harris & Harris Group, Inc., a New York corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell an aggregate of [] shares of common stock, \$0.001 par value per share (the "Firm Shares"), of the Company to you. The Company also proposes to sell upon the terms and conditions contained in Section 2 hereof, up to [] additional common shares (the "Additional Shares" which together with the Firm Shares are hereinafter collectively referred to as the "Shares").

The Company wishes to confirm as follows its agreement with you in connection with the purchases of the Shares]from the Company.

1. Registration Statement and Prospectus. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") in accordance with the provisions of the Securities Act of 1933 (the "1933 Act"), the Investment Company Act of 1940 (the "1940 Act"), and the rules and regulations of the Commission promulgated under the 1933 Act (the "1933 Act Rules and Regulations") and the 1940 Act (the "1940 Act Rules and Regulations" and, together with the 1933 Act Rules and Regulations, the "Rules and Regulations"), a registration statement on Form N-2 (File Nos. 333-110064 and 811-07074), under the 1933 Act and the 1940 Act including a prospectus subject to completion, relating to the Shares, a statement of additional information relating to the Shares and an election to be treated as a business development company under the 1940 Act. Such registration statement, as amended at the time when it becomes effective and as thereafter amended for purposes of the 1933 Act by any post-effective amendment, is referred to in this Agreement as the "Registration Statement." The prospectus and statement of additional information in the form included in the Registration Statement or, if the prospectus and statement of additional information included in the Registration Statement omit certain information in reliance upon Rule 430A under the 1933 Act and such information is thereafter included in a prospectus or statement of additional information filed with the Commission pursuant to Rule 497(h) under the 1933 Act or as part of a post-effective amendment to the Registration Statement after the Registration Statement becomes effective, the prospectus and statement of additional information as so filed, are referred to in this Agreement as the "Prospectus." The prospectus subject to completion in the form included in the Registration Statement at the time of the initial filing of such Registration Statement with the Commission and as such prospectus is amended from time to time until the date of the Prospectus are collectively referred to in this Agreement as the "Prepricing Prospectus." Any reference in this Agreement to the Registration Statement, any Prepricing Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to General Instructions (F) of Form N-2 under the 1933 Act and the 1940 Act, as of the date of the Registration Statement, such Prepricing Prospectus or the Prospectus, as the case may be, and any reference to any amendment or supplement to the Registration Statement, any Prepricing Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after such date under the Securities Exchange Act of 1934 (the "1934 Act") which, upon filing, are incorporated by reference therein. As used herein, the term "Incorporated Documents" means the documents which at the time are incorporated by reference in the Registration Statement, any Prepricing Prospectus, the Prospectus, or any amendment or supplement thereto.

2. Agreements to Sell and Purchase. The Company hereby agrees to sell the Firm Shares to the Underwriter and, upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, the Underwriter agrees to purchase from the Company at a purchase price of \$[] per Share] (the "purchase price per Share"), the number of Firm Shares set forth above.

The Company hereby also agrees to sell to the Underwriter, and upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, the Underwriter shall have the right for [30] days from the date of the Prospectus to purchase from the Company up to [] Additional Shares at the purchase price per share for the Firm Shares. The Additional Shares may be purchased solely for the purpose of covering over-allotments, if any, made in connection with the offering of the Firm Shares.

3. Terms of Public Offering. The Company has been advised by you that you propose to make a public offering of the Shares as soon after the Registration Statement has become effective and this Agreement has been executed and delivered as in your judgment is advisable, and initially to offer the Shares upon the terms set forth in the Prospectus.

4. Delivery of the Shares and Payment Therefor. Delivery to you of the Firm Shares and payment therefor shall be made at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York, at 10:00 a.m., New York, New York time, on _____, 2003 (the "Closing Date"). The place of closing for the Firm Shares and the Closing Date may be varied by agreement between you and the Company.

Delivery to you of and payment for any Additional Shares to be purchased by you shall be made at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York, at 10:00 a.m., New York, New York time, on such date or dates (the "Additional Closing Date") (which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than three nor later than ten business days after the giving of the notice hereinafter referred to) as shall be specified in a written notice from you to the Company of your determination to purchase a number, specified in such notice, of Additional Shares. You may give such notice to the Company at any time within [30] days after the date of the Prospectus. The place of closing for the Additional Shares and the Additional Closing Date may be varied by agreement between you and the Company.

Certificates for the Firm Shares and for any Additional Shares to be purchased hereunder shall be registered in such names and in such denominations as you shall request prior to 1:00 p.m., New York, New York time (or such other time as the parties agree), not later than the second full business day preceding the Closing Date or the Additional Closing Date, as the case may be. Such certificates shall be made available to you in New York, New York for inspection and packaging not later than 9:30 a.m., New York, New York time, on the business day immediately preceding the Closing Date or the Additional Closing Date, as the case may be. The certificates evidencing the Firm Shares and any Additional Shares to be purchased hereunder shall be delivered to you on the Closing Date or the Additional Closing Date, as the case may be, against payment of the purchase price therefor by wire transfer immediately available funds to the account specified in writing, not later than the close of business two days next preceding the Closing Date or the Additional Closing Date, as the case may be. Payment for the Firm Shares sold by the Company hereunder shall be delivered by you to the Company.

5. Covenants and Agreements of the Company. The Company covenants and agrees with you as follows:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto to be declared effective under the 1933 Act before the offering of the Shares may commence, the Company will use its best efforts to cause the Registration Statement or such post-effective amendment to become effective under the 1933 Act as soon as possible. If the Registration Statement has become effective and the Prospectus contained therein omits certain information at the time of effectiveness pursuant to Rule 430A of the 1933 Act Rules and Regulations, the Company will file a prospectus including such

information pursuant to Rule 497(h) of the 1933 Act Rules and Regulations, as promptly as practicable, but no later than the second business day following the earlier of the date of the determination of the offering price of the Shares or the date the Prospectus is first used after the effective date of the Registration Statement. If the Registration Statement has become effective and the Prospectus contained therein does not so omit such information, the Company will file a Prospectus or certification pursuant to Rule 497(c) or (j), as the case may be, of the 1933 Act Rules and Regulations as promptly as practicable, but no later than the fifth business day following the date of the later of the effective date of the Registration Statement or the commencement of the public offering of the Shares after the effective date of the Registration Statement. The Company will advise you promptly and, if requested by you, will confirm such advice in writing (i) when the Registration Statement or such post-effective amendment has become effective, (ii) when the Prospectus has been timely filed pursuant to Rule 497(c) or Rule 497(h) of the 1933 Act Rules and Regulations or (iii) when the certification permitted pursuant to Rule 497(j) of the 1933 Act Rules and Regulations has been timely filed, whichever is applicable.

(b) The Company will advise you promptly and, if requested by you, will confirm such advice in writing: (i) of any request made by the Commission for amendment of or a supplement to the Registration Statement, including a Rule 462(b) Registration Statement, the Prospectus or any Prepricing Prospectus (or any amendment or supplement to any of the foregoing) or for additional information, (ii) of the issuance by the Commission, any state securities commission, any national securities exchange, any arbitrator, any court or any other governmental, regulatory, self-regulatory or administrative agency or any official of any order suspending the effectiveness of the Registration Statement, prohibiting or suspending the use of the Prospectus, any Prepricing Prospectus or any sales material (as hereinafter defined), of any notice pursuant to Section 8(e) of the 1940 Act, of the suspension of qualification of the Shares for offering or sale in any jurisdiction, or the initiation or contemplated initiation of any proceeding for any such purposes, (iii) of receipt by (A) the Company, any affiliate of the Company or attorney of the Company of any other material communication from the Commission, or (B) the Company, any affiliate of the Company or attorney of the Company of any other material communication from the Commission, any state securities commission, any national securities exchange, any arbitrator, any court or any other governmental, regulatory, self-regulatory or administrative agency or any official relating, in the case of either clause (A) or (B), to the Company (if such communication relating to the Company is received by such person within three years after the date of this Agreement), the Registration Statement, the Form N-8A, the Prospectus, any Prepricing Prospectus, any Sales Material (as hereinafter defined) (or any amendment or supplement to any of the foregoing) or this Agreement, and (iv) within the period of time referred to in paragraph (f) below, of any material, adverse change in the condition (financial or other), business, business prospects, properties, net assets or results of operations of the Company (other than as a result of changes in market conditions generally) or of the happening of any event known to the Company which makes any statement of a material fact made in the Registration Statement, the Prospectus, any Prepricing Prospectus or any Sales Material (or any amendment or supplement to any of the foregoing) untrue or which requires the making of any additions to or changes in the Registration Statement, the Prospectus, any Prepricing Prospectus or any Sales Material (or any amendment or supplement to any of the foregoing) in order to state a material fact required by the 1933 Act, the 1940 Act or the Rules and Regulations to be stated therein or necessary in order to make the statements therein (in the case of a prospectus or any sales material, in light of the circumstances under which they were made) not misleading or of the necessity to amend or supplement the Registration Statement, the Prospectus, any Prepricing Prospectus or any Sales Material (or any amendment or supplement to any of the foregoing) to comply with the 1933 Act, the 1940 Act, the Rules and Regulations or any other law or order of any court or regulatory body. If at any time the Commission shall issue any order suspending the effectiveness of the Registration Statement, prohibiting or suspending the use of the Prospectus or any Sales Material (or any

amendment or supplement to any of the foregoing) or suspending the qualification of the Shares for offering or sale in any jurisdiction, the Company will use its best efforts to obtain the withdrawal of such order at the earliest possible time. If at any time any national securities exchange, any state securities commission, any arbitrator, any court or any other governmental, regulatory, self-regulatory or administrative agency or any official shall issue any order suspending the effectiveness of the Registration Statement, prohibiting or suspending the use of the Prospectus or any Sales Material (or any amendment or supplement to any of the foregoing) or suspending the qualification of the Shares for offering or sale in any jurisdiction, the Company will use its reasonable best efforts to obtain the withdrawal of such order at the earliest possible time.

(c) Within five years from the date hereof, the Company will not (i) file any amendment (except any post-effective amendment required by Rule 8b-16 of the 1940 Act which is filed with the Commission after the later of (x) one year from the date of this Agreement or (y) the date on which the distribution of the Shares is completed) to the Registration Statement or make any amendment or supplement to the Prospectus, any Prepricing Prospectus or any Sales Material (or any amendment or supplement to any of the foregoing) unless (i) you shall have been previously advised thereof and been given a reasonable opportunity to review such filing, amendment or supplement and have not objected to such filing, amendment or supplement after being so advised or (ii) so long as, in the opinion of counsel for the Underwriter, a Prospectus is required to be delivered in connection with sales of Shares by the Underwriter or dealer, file any information, documents or reports pursuant to the 1933 Act, the 1940 Act or the 1934 Act, without delivering a copy of such information, documents or reports to you, prior to or concurrently with such filing.

(d) Prior to the execution and delivery of this Agreement, the Company has delivered to you, without charge, in such quantities as you have reasonably requested, copies of each form of any Prepricing Prospectus. The Company consents to the use, in accordance with the provisions of the 1933 Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the Underwriter and by dealers, prior to the date of the Prospectus, of each Prepricing Prospectus so furnished by the Company.

(e) As soon after the execution and delivery of this Agreement as reasonably possible and thereafter from time to time, for such period as in the opinion of counsel for the Underwriter a prospectus is required by the 1933 Act to be delivered in connection with sales of Shares by any Underwriter or dealer and for so long a period as you may request for the distribution of Shares, the Company will promptly deliver to the Underwriter and each dealer, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as you may reasonably request. The Company consents to the use of the Prospectus (and of any amendments or supplements thereto) in accordance with the provisions of the 1933 Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the Underwriter and by all dealers to whom Shares may be sold, both in connection with the offering or sale of the Shares and for such period of time thereafter as the Prospectus is required by law to be delivered in connection with sales of Shares by the Underwriter or any dealer. If during such period of time any event shall occur that in the judgment of the Company or in the opinion of counsel for the Underwriter is required to be set forth in the Registration Statement or the Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading in any material respect or if it is necessary to supplement or amend the Registration Statement or the Prospectus to comply with the 1933 Act, the 1940 Act, the Rules and Regulations or any other applicable law, rule or regulation, the Company will forthwith notify you of such event, prepare and, subject to the provisions of paragraphs ___ above, promptly file with the Commission and use its best efforts to cause to become effective as promptly as possible an appropriate amendment or supplement thereto and will furnish as promptly as

reasonably possible to the Underwriter and dealers, without charge, such number of copies thereof as they may reasonably request; provided, however, that if such amendment or supplement is required solely as a result of a material misstatement in or material omission from the information furnished in writing by or on behalf of the Underwriter to the Company expressly for use in the Registration Statement or the Prospectus (such information, as described in Section 12 of this Agreement, being referred to herein as the "Underwriter Information"), then the Company shall deliver such amendment or supplement at cost.

(f) The Company will cooperate with you and with your counsel in connection with any registration or qualification of the Shares for offering and sale by the Underwriter and by dealers as may be required under the applicable securities or Blue Sky laws of such jurisdictions as you may designate and will file such consents to service of process or other documents necessary or appropriate in order to effect such registration or qualification for so long as required to complete the distribution of the Shares; provided, however, that the foregoing shall not apply to the extent that the Shares are "covered securities" that are exempt from state regulation of securities offerings pursuant to Section 18 of the 1933 Act.

(g) As soon as practicable, but in no event later than the last day of the 18th full calendar month following the end of the calendar quarter in which the effective date of the Registration Statement falls, the Company will make generally available to its security holders an earnings statement, which need not be audited, which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act and Rule 158 of the 1933 Act Rules and Regulations.

(h) During the period of three years hereafter, the Company will furnish or will have furnished to you as soon as available, (i) a copy of each report of the Company mailed to shareholders or filed with the Commission (other than reports on Form N-SAR) or furnished to the NASD or any national securities exchange or (ii) from time to time such other information concerning the Company as you may reasonably request.

(i) If this Agreement shall terminate or be terminated after execution pursuant to any provisions hereof or if this Agreement shall be terminated by the Underwriter because of any inability, failure or refusal on the part of the Company to comply with any material terms in this Agreement or because any of the conditions in Section 10 of this Agreement required to be complied with or fulfilled by it are not satisfied, then the Company agrees to reimburse the Underwriter for all out-of-pocket expenses (including reasonable fees and expenses of counsel for the Underwriter) incurred by you in connection herewith.

(j) The Company will direct the investment of the net proceeds of the offering of the Shares in accordance in all material respects with the statements under the caption "Use of Proceeds" set forth in the Prospectus.

(k) The Company will file the requisite copies of the Prospectus with the Commission in a timely fashion pursuant to Rule 497(c) or Rule 497(h) of the 1933 Act Rules and Regulations, whichever is applicable or, if applicable, will file in a timely fashion the certification permitted by Rule 497(j) of the 1933 Act Rules and Regulations and will advise you of the time and manner of such filing.

(l) The Company will use its best efforts to have the Shares approved, subject to notice of issuance, for trading on the NASD National Market concurrently with the effectiveness of the Registration Statement and to comply with the rules or regulations of the NASD in relation thereto.

(m) Except to the Underwriter as provided in this Agreement or pursuant to any dividend reinvestment plan of the Company described in the Prospectus, the Company will not directly or

indirectly issue, sell, contract to sell or otherwise dispose of, any common shares of the Company or any securities convertible into or exercisable or exchangeable for common shares of the Company or grant any rights, options or warrants to purchase common shares of the Company, for a period of 180 days after the date of the Prospectus, without your prior written consent.

(n) Except as stated in this Agreement and in the Prospectus, the Company will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Shares in violation of federal securities laws.

(o) The Company will direct the investment of the proceeds of the offering of the Shares so as to comply with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), to qualify as a regulated investment company under the Code.

(p) The Company will comply with all applicable securities and other applicable laws, rules and regulations, including, without limitation, the Sarbanes-Oxley Act of 2002, and will use its best efforts to cause the Company's directors and officers, in their capacities as such, to comply with such laws, rules and regulations, including, without limitation, the provisions of the Sarbanes-Oxley Act of 2002.

(q) The Company will comply with all provisions of any undertakings contained in the Registration Statement.

6. Representations and Warranties of the Company. The Company hereby represents and warrants to the Underwriter on the date hereof, and shall be deemed to represent and warrant to the Underwriter on the Closing Date and the Additional Closing Date, that:

(a) Each Prepricing Prospectus included as part of the registration statement as originally filed or as part of any amendment or supplement thereto or filed pursuant to Rule 497 of the 1933 Act Rules and Regulations, complied when so filed in all material respects with the provisions of the 1933 Act, the 1940 Act and the Rules and Regulations (except that this representation and warranty does not apply to statements in or omissions from the Prepricing Prospectus (and any amendment or supplement thereto) made in reliance upon and in conformity with the Underwriter Information) and the Commission has not issued any order preventing or suspending the use of the Prepricing Prospectus.

(b) The registration statement, in the form in which it became or becomes effective and also in such form as it may be when any post-effective amendment thereto shall become effective, the Prospectus and any amendment or supplement thereto when filed with the Commission under Rule 497 of the 1933 Act Rules and Regulations and the Form N-8A when originally filed with the Commission and any amendment or supplement thereto when filed with the Commission complied or will comply in all material respects with the provisions of the 1933 Act, the 1940 Act and the Rules and Regulations and each of the Registration Statement, and the Prospectus (or any supplement or amendment to any of them) did not or will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading; except that this representation and warranty does not apply to statements in or omissions from the Registration Statement and the Prospectus (and any amendment or supplement to either of them) made in reliance upon and in conformity with the Underwriter Information.

(c) All the outstanding shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are free of any preemptive or similar rights; the Shares have been duly authorized and, when issued and delivered to the Underwriter against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any preemptive or similar rights; except as set forth in

the Prospectus, the Company is not a party to or bound by any outstanding options, warrants, or similar rights to subscribe for, or contractual obligations to issue, sell, transfer or acquire, any of its capital stock or any securities convertible into or exchangeable for any of such capital stock; and the capital stock of the Company conforms in all respects to the description thereof in the Registration Statement or the Prospectus (or any amendment or supplement to either of them). Except for the Shares and the shares of common stock issued in accordance with Section 14(a) of the 1940 Act, no other shares of capital stock are issued or outstanding and the capitalization of the Company conforms to the description thereof in the Registration Statement and the Prospectus (or any amendment or supplement to either of them) as of the date set forth therein.

(d) The Company has been duly formed and is validly existing in good standing as a corporation under the laws of the State of New York, with full trust power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus (and any amendment or supplement to either of them) and is duly registered and qualified to conduct business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or to qualify does not or would not have a material, adverse effect on the condition (financial or other), business, business prospects, properties, net assets or results of operations of the Company (a "Material Adverse Effect").

(e) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company, or to which the Company or any of its properties is subject, (i) that are required to be described in the Registration Statement or the Prospectus (and any amendment or supplement to either of them) but are not described therein or (ii) which might individually or in the aggregate prevent the transactions contemplated by this Agreement, and there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus (or any amendment or supplement to either of them) or to be filed as an exhibit to the Registration Statement that are not described therein or filed as an exhibit thereto. The contracts so filed as exhibits are accurate and complete in all respects. All such contracts to which the Company is a party have been duly authorized, executed and delivered by the Company, constitute valid and binding agreements of the Company and are enforceable against the Company in accordance with the terms thereof, except as enforceability thereof may be limited by (A) the application of bankruptcy, reorganization, insolvency and other laws affecting creditors' rights generally, (B) equitable principles being applied at the discretion of a court before which any proceeding may be brought and (C) limitations of public policy and a court's discretion with respect to the enforceability of any indemnification rights. The Company has not received notice or been made aware that any other party is in breach of or default under any such contracts.

(f) The Company is not (i) in violation of its Certificate of Incorporation, by-laws or other organizational documents, (ii) in violation of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or of any decree of the Commission, any state securities commission, any national securities exchange, any arbitrator, any court or any other governmental, regulatory, self-regulatory or administrative agency or any other agency or any body or official having jurisdiction over the Company or (iii) in breach or default in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company is a party or by which it or any of its properties may be bound, except, in the case of (ii) and (iii) above, for violations, breaches or defaults that do not or would not have, either individually or in the aggregate, a Material Adverse Effect on the Company; and there does not exist any state of facts which constitutes an event of default on the part of the Company as defined in such documents or which, with notice or lapse of time or both, would constitute such an event of

default (except for any such event of default that would not have a Material Adverse Effect).

(g) Neither the issuance and sale of the Shares, the execution, delivery or performance of this Agreement or any of the Company Agreements [not defined] by the Company, nor the consummation by the Company of the transactions contemplated hereby or thereby (i) requires any consent, approval, authorization or order of or registration or filing with the Commission, any state securities commission, any national securities exchange, any arbitrator, any court, regulatory body, administrative agency or other governmental body, agency or official having jurisdiction over the Company (except (A) such as have been obtained or made prior to the date of this Agreement, (B) for compliance with the securities or Blue Sky laws of various jurisdictions which have been or will be effected in accordance with this Agreement and (C) for compliance with the filing requirements of the NASD Division of Corporate Finance) or conflicts or will conflict with or constitutes or will constitute a breach of the Declaration, bylaws, or other organizational documents of the Company or (ii) (A) conflicts or will conflict with or constitutes or will constitute a breach of or a default under any agreement, indenture, lease or other instrument to which the Company is a party or by which it or any of its properties may be bound or (B) violates or will violate any statute, law, regulation or filing or judgment, injunction, order or decree applicable to the Company or any of its properties or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company pursuant to the terms of any agreement or instrument to which it is a party or by which it may be bound or to which any of the property or assets of the Company is subject except, in the case of (ii) above, for conflicts, breaches, defaults, violations or encumbrances that do not or would not have, either individually or in the aggregate, a Material Adverse Effect on the Company. As of the date hereof, the Company is not subject to any order of any court or of any arbitrator, governmental authority or administrative agency that has or would have, either individually or in the aggregate, a Material Adverse Effect on the Company.

(h) Since the date as of which information is given in the Registration Statement and the Prospectus (and any amendment or supplement to either of them), except as otherwise stated therein, (i) there has been no change that has or would have a Material Adverse Effect on the Company; (ii) there have been no material transactions entered into by the Company other than those in the ordinary course of its business or described in the Prospectus (and any amendment or supplement thereto); and (iii) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its common stock.

(i) PricewaterhouseCoopers LLP, who have audited the Statement of Assets and Liabilities included in, and whose report appears in, the Registration Statement and the Prospectus (and any amendment or supplement to either of them), are independent public accountants with respect to the Company as required by the 1933 Act, the 1940 Act and the Rules and Regulations. To the best of the Company's knowledge and belief, Arthur Andersen LLP, who previously expressed their opinions on certain of the audited financial statements included in the Registration Statements and the Prospectus (but have not consented to inclusion of such opinions in the registration statements), at all times at which they served as public accountants, were independent public accountants with respect to the Company within the meaning of the Securities Act and the applicable Rules and Regulations.

(j) The financial statements, together with related schedules and notes, included or incorporated by reference in the Registration Statement or the Prospectus (or any amendment or supplement to either of them) present fairly the financial position of the Company on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as

disclosed therein; and the other financial and statistical information and data included in the Registration Statement or the Prospectus (or any amendment or supplement thereto) are accurately derived from such financial statements and the books and records of the Company. No other financial statements or schedules are required to be included in the Registration Statement.

(k) The Company, subject to the Registration Statement having been declared effective and the filing of the Prospectus under Rule 497 under the 1933 Act Rules and Regulations, has taken all action required to be taken by it under the 1933 Act, the 1940 Act and the Rules and Regulations to make the public offering and consummate the sale of the Shares as contemplated by this Agreement.

(l) The execution and delivery of and the performance by the Company of its obligations under this Agreement and the Company Agreements have been duly and validly authorized by the Company and this Agreement and each of the Company Agreements have been duly executed and delivered by the Company and (assuming due and valid authorization, execution and delivery by the other parties hereto and thereto) this Agreement and each Company Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except as rights to indemnity and contribution hereunder may be limited by federal or state securities laws and subject to the qualification that the enforceability of the Company's obligations hereunder and thereunder may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).

(m) Except as disclosed in or contemplated by the Registration Statement or the Prospectus (or any amendment or supplement to either of them), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (and any amendment or supplement to either of them), the Company has not incurred any debt, liability or obligation, indirect, direct or contingent, and there has not been any change in the capital stock or capitalization of the Company.

(n) The Company has not distributed without your consent to the public any offering material in connection with the offering and sale of the Shares other than the Registration Statement, the Prepricing Prospectus included in Pre-Effective Amendment No. 2 to the registration statement (the "Red Herring Preliminary Prospectus"), the Prospectus and the Sales Material (or any other material, if any, permitted by the 1933 Act, the 1940 Act or the Rules and Regulations).

(o) (i) The Company has such licenses, permits, and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its property and to conduct its business in the manner described in the Prospectus (and any amendment or supplement thereto); (ii) the Company has fulfilled and performed all its obligations with respect to such permits and no event has occurred which allows or, after notice or lapse of time, would allow, revocation or termination thereof or results in any other impairment of the rights of the Company under any such permit, subject in each case to such qualification as may be set forth in the Prospectus (and any amendment or supplement thereto); and, (iii) except as described in the Prospectus (and any amendment or supplement thereto), none of such permits contains any restriction that is materially burdensome to the Company; except where the failure to obtain or perform its obligations with respect to such permits, or the restrictions set forth in such permits, as set forth in clauses (i), (ii) and (iii), either individually or in the aggregate, does or would not have a Material Adverse Effect on the Company.

(p) The Company has maintained and continues to maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with the Board of Directors' general or specific

authorization and with the investment policies and restrictions of the Company and the applicable requirements of the 1940 Act, the 1940 Act Rules and Regulations and the Code; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles, to calculate net asset value and fee accruals, to maintain accountability for assets and to maintain compliance with the books and records requirements under the 1940 Act and the 1940 Act Rules and Regulations; (iii) access to assets is permitted only in accordance with the Board of Directors' general or specific authorization; and (iv) the recorded account for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(q) The conduct by the Company of its business (as described in the Prospectus) does not require it to be the owner, possessor, licensee of, or otherwise require it to have the right to use, any patents, patent licenses, trademarks, service marks or trade names (collectively, "Intellectual Property") which it does not own, possess, license or otherwise have the right to use, except where the failure to own, possess, license or otherwise have the right to use such Intellectual Property, individually or in the aggregate, does or would not have a Material Adverse Effect on the Company.

(r) Except as stated in this Agreement and in the Prospectus (and any amendment or supplement thereto), the Company has not taken and will not take, directly or indirectly, any action designed to or which could cause or result in or which will constitute stabilization or manipulation of the price of the Shares in violation of federal securities laws and, to the Company's knowledge, no such action has been, or will be, taken by any affiliates of the Company.

(s) The Company has duly elected to be a business development company under the 1940 Act and the Rules and Regulations; no order of suspension or revocation of such election under the 1940 Act and the Rules and Regulations has been issued or proceedings therefor initiated or, to the knowledge of the Company, threatened by the Commission. The Company is, and at all times through the completion of the transactions contemplated hereby, will be, in compliance in all material respects with the 1933 Act and the 1940 Act. No person is serving as an officer, director, trustee or investment adviser of the Company except in accordance with the provisions of the 1940 Act and the 1940 Act Rules and Regulations. The Company has not received any notice from the Commission pursuant to Section 8(e) of the 1940 Act with respect to the 1940 Act Notification or the Registration Statement (or any amendment or supplement to either of them).

(t) All advertising, sales literature, "prospecting letters," "prospectus wrappers," envelopes, prospectuses omitted from the Registration Statement pursuant to the 1933 Act Rules and Regulations or other promotional material prepared or authorized in writing by the Company for use or distribution to the public for use in connection with the offering and sale of the Shares (including the client brochure and the broker flyer each filed with the NASD on [], 2003) (collectively, "Sales Material") complied and comply in all respects with the applicable requirements of the 1933 Act, the 1933 Act Rules and Regulations and the rules and interpretations of the NASD and no Sales Material contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that this representation and warranty does not apply to statements in or omissions from the Sales Material made in reliance upon and in conformity with the Underwriter Information).

(u) No holder of any security of the Company has any right to require registration of any Shares, capital stock or any other security of the Company because of the filing of the registration statement or consummation of the transactions contemplated by this Agreement.

(v) The Company intends to direct the investment of the

proceeds of the offering of the Shares in such a manner as to comply with the requirements of Subchapter M of the Code.

(w) None of the promotional material for use by brokers in connection with the marketing of the Shares (including any "broker kits," "road show slides," "road show scripts," "broker post-cards" and "broker reference cards" authorized in writing by or prepared by the Company for use in connection with the offering and sale of the Shares (collectively, "Broker Material") when read together with the Prospectus, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that this representation and warranty does not apply to statements in or omissions from the Broker Material made in reliance upon and in conformity with the Underwriter Information), and no Broker Material was or has been made available by the Company by means of an Internet web site or similar electronic means.

(x) The Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus or the Prospectus.

(y) Except as disclosed in the Registration Statement or the Prospectus (or any amendment or supplement to either of them), to the Company's knowledge, after due inquiry, no director of the Company is an "interested person" (as defined in the 1940 Act) of the Company or an "affiliated person" (as defined in the 1940 Act) of the Underwriter.

(z) The Shares have been approved for trading on the NASD National Market.

(aa) The officers and directors of the Company are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary for directors' and officers' liability insurance of a public company and as would cover claims which could be made in connection with the issuance of the Common Stock; and the Company has no reason to believe that it will not be able to renew its existing directors' and officers' liability insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to cover its officers and directors.

(bb) The Company has good and valid title to all property (real and personal) described in the Prospectus as being owned by it, free and clear of all liens, claims, security interests or other encumbrances except (i) such as are described in the financial statements included in, or elsewhere in, the Prospectus or (ii) such as are not materially burdensome and do not interfere in any material respect with the use of the property or the conduct of the business of the Company. All property (real and personal) held under lease by the Company is held by it under valid, subsisting and enforceable leases with only such exceptions as in the aggregate are not materially burdensome and do not interfere in any material respect with the conduct of the business of the Company, except as described in the Prospectus.

(cc) The Company has not, or to the knowledge of the Company, any other person associated with or acting on behalf of the Company, including, without limitation, any director, officer, agent or employee of the Company or any of its subsidiaries, has not, directly or indirectly, at any time during the past five years (i) made any unlawful contribution to any candidate for political office, or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal, state or foreign governmental official, or other person charged with similar public or quasi-public duties (other than payments required or permitted by the laws of the United States or any jurisdiction thereof or applicable foreign jurisdictions); (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any other unlawful payment.

(dd) All offers, sales, conversions and redemptions of the

Company's capital stock and other securities through the date hereof were made in compliance with the 1933 Act, the 1940 Act, the Rules and Regulations and all other applicable state and federal laws or regulations, except to the extent any noncompliance would not have a Material Adverse Effect.

(ee) All federal, state, local and foreign tax returns required to be filed by or on behalf of the Company (and its predecessors) with respect to the six full fiscal years ended prior to the date of this Agreement have been filed (or are the subject of valid extension) with the appropriate federal, state, local and foreign authorities and all such tax returns, as filed, are accurate in all material respects. All federal, state, local and foreign taxes (including estimated tax payments) required to be shown on all such tax returns or claimed to be due from or with respect to the business of the Company (and its predecessors) with respect to such six full fiscal years have been paid or reflected as a liability on the financial statements of the Company for appropriate periods, except for those taxes or claims therefor which are being contested by the Company in good faith and for which appropriate reserves are reflected in the Company's financial statements. All deficiencies asserted as a result of any federal, state, local or foreign tax audits have been paid or finally settled and no issue has been raised in any such audit which, by application of the same or similar principles, reasonably could be expected to result in a proposed deficiency for any other period not so audited. There are no outstanding agreements or waivers extending the statutory period of limitation applicable to any federal, state, local or foreign tax return for any period. On the Closing Date, and Additional Closing Date, if any, all stock transfer and other taxes which are required to be paid in connection with the sale of the shares to be sold by the Company to the Underwriter will have been fully paid by the Company and all laws imposing such taxes will have been complied with.

(ff) Except as set forth in the Prospectus, there are no transactions with "affiliates" (as defined in Rule 405 promulgated under the 1933 Act) or any officer, director or security holder of the Company (whether or not an affiliate) which are required by the 1933 Act, the 1940 and the Rules and Regulations thereunder to be disclosed in the Registration Statement.

(gg) The Company has procured lock-up agreements from each of the Company's most senior executive officers and directors.

(hh) To the Company's knowledge, no officer, director or 10% shareholder of the Company has a direct or indirect affiliation or association with any member of the NASD, except as discussed in the questionnaires delivered by the Company to the Underwriter or disclosed in the Prospectus.

(ii) The statistical and market-related data included in the Prospectus is based on or derived from sources which the Company believes to be reliable and accurate in all material respects.

7. Expenses. Whether or not the transactions contemplated hereby are consummated or this Agreement becomes effective or is terminated, the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the 1933 Act and the 1940 Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof and of any Prepricing Prospectus to the Underwriter and dealers; (ii) the printing and delivery (including, without limitation, postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, the Prospectus, each Prepricing Prospectus, the Blue Sky memoranda, the Power of Attorney and Custody Agreement, this Agreement and all amendments or supplements to any of them as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws or Blue Sky laws, including the reasonable attorneys' fees and out-of-pocket expenses of the counsel for the Underwriter in

connection therewith; (iv) the filing fees incident to securing any required review by the NASD of the fairness of the terms of the sale of the Shares and the reasonable fees and disbursements of the Underwriter's counsel relating thereto; (v) the cost of preparing stock certificates; (vi) the costs and charges of any transfer agent or registrar; (vii) the cost of the tax stamps, if any, in connection with the issuance and delivery of the Shares to the Underwriter; (viii) all other fees, costs and expenses referred to in Item 26 of the Registration Statement, (ix) the transportation, lodging, graphics and other expenses incidental to the Company's preparation for and participation in the "roadshow" for the offering contemplated hereby, and (x) all other costs and expenses incident to the performance of the obligations of the Company hereunder which are not otherwise specifically provided for in this Section 7. Notwithstanding the foregoing, in the event that the proposed offering is terminated for the reasons set forth in Section 11 hereof, the Company agrees to reimburse the Underwriter as provided in this Section 7.

8. Indemnification and Contribution. Subject to the limitations in this paragraph below and to the other limitations set forth in this Section 8, the Company agrees to indemnify and hold harmless you and your directors, officers, employees and agents, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses, including, without limitation, reasonable costs of investigation and attorneys' fees and expenses (collectively, "Damages") arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Prepricing Prospectus or in the Registration Statement or the Prospectus or in any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except to the extent that any such Damages arise out of or are based upon an untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information furnished in writing to the Company by or on your behalf expressly for use in connection therewith, or (ii) any inaccuracy in or breach of the representations and warranties of the Company contained herein or any failure of the Company to perform its respective obligations hereunder or under law; provided, however, that with respect to any untrue statement or omission made in any Prepricing Prospectus, the indemnity agreement contained in this paragraph shall not inure to the benefit of the Underwriter (or to the benefit of any person controlling the Underwriter or to any officer, director, employee or agent of the Underwriter) from whom the person asserting any such losses, claims, damages or liabilities purchased the Shares concerned if both (y) a copy of the Prospectus was not sent or given to such person at or prior to the written confirmation of the sale of such Shares to such person as required by the 1933 Act, and (z) the untrue statement or omission in the Prepricing Prospectus was corrected in the Prospectus. This indemnification shall be in addition to any liability that the Company may otherwise have.

In addition to its other obligations under this Section 8, the Company agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any inaccuracy in the representations and warranties of the Company herein or failure to perform its obligations hereunder, all as set forth in this Section 8, subject to the limitations set forth in this Section 8, it will reimburse the Underwriter on a quarterly basis for all reasonable legal or other out-of-pocket expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse the Underwriter for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriter shall promptly return it to the person(s) from whom it was received, together with interest compounded daily determined on the basis of the base lending rate announced from time to time by Chase Manhattan Bank, N.A. (the "Prime Rate"). Any such interim reimbursement payments which are not made to the Underwriter within 30 days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

If any action or claim shall be brought against the Underwriter or any person controlling the Underwriter in respect of which indemnity may be

sought against the Company, the Underwriter or such controlling person shall promptly notify in writing the party(s) against whom indemnification is being sought (the "indemnifying party" or "indemnifying parties"), and such indemnifying party(s) shall assume the defense thereof, including the employment of counsel reasonably acceptable to the Underwriter or such controlling person and payment of all fees and expenses incurred by such counsel. The Underwriter or any such controlling person shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Underwriter or such controlling person unless (i) the indemnifying party(s) has (have) agreed in writing to pay such fees and expenses, (ii) the indemnifying party(s) has (have) failed to assume the defense and employ counsel reasonably acceptable to the Underwriter or such controlling person or (iii) the named parties to any such action (including any impleaded parties) include both the Underwriter or such controlling person and the indemnifying party(s), and the Underwriter or such controlling person shall have been advised by its counsel that one or more legal defenses may be available to the Underwriter which may not be available to the Company, or that representation of such indemnified party and any indemnifying party(s) by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the indemnifying party(s) shall not have the right to assume the defense of such action on behalf of the Underwriter or such controlling person (notwithstanding its (their) obligation to bear the fees and expenses of such counsel)). It is understood, however, that the indemnifying parties shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for the Underwriter and controlling persons not having actual or potential differing interests. The indemnifying party(s) shall not be liable for any settlement of any such action effected without its (their) written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, the indemnifying party(s) agrees to indemnify and hold harmless the Underwriter and any such controlling person from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment, but in the case of a judgment only to the extent stated in the immediately preceding paragraph.

The Underwriter agrees to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Underwriter, but only with respect to information furnished in writing by or on behalf of the Underwriter through you expressly for use in the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto. If any action or claim shall be brought or asserted against the Company, any of its directors, any such officers, or any such controlling person based on the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against the Underwriter pursuant to this paragraph, the Underwriter shall have the rights and duties given to the Company by the preceding paragraph (except that if the Company shall have assumed the defense thereof the Underwriter shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at the Underwriter's expense), and the Company, its directors, any such officers, and any such controlling persons shall have the rights and duties given to the Underwriter by the immediately preceding paragraph.

If the indemnification provided for in this Section 8 is unavailable or insufficient for any reason whatsoever to an indemnified party under the first or fourth paragraph of this Section 8 in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriter on the other hand from the offering and sale of the Shares or (ii) if the allocation provided by clause (i) above is not

permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriter on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriter on the other hand, shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriter, in each case as set forth in the table on the cover page of the Prospectus; provided that, in the event that the Underwriter shall have purchased any Additional Shares hereunder, any determination of the relative benefits received by the Company or the Underwriter from the offering of the Shares shall include the net proceeds (before deducting expenses) received by the Company, and the underwriting discounts and commissions received by the Underwriter, from the sale of such Additional Shares, in each case computed on the basis of the respective amounts set forth in the notes to the table on the cover page of the Prospectus. The relative fault of the Company on the one hand and the Underwriter on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the Underwriter on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, the Underwriter shall not be required to contribute any amount in excess of the amount by which the total price of the Shares underwritten by it and distributed to the public exceeds the amount of any damages which the Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification, reimbursement or interim payment or contribution under this Section 8 shall be subject to the requirements of Release No. 11330 and Section 17(i) of the 1940 Act and, subject thereto, shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity, contribution and reimbursement agreements contained in this Section 8 and the representations and warranties of the Company, respectively, set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of the Underwriter or any person controlling the Underwriter, the Company, its directors or officers or any person controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder and (iii) any termination of this Agreement. A successor to the Underwriter or any person controlling the Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in the second and fifth paragraphs of this Section 8, including the amounts of any requested reimbursement payments and the method of determining such amounts, shall be settled by arbitration conducted pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration must be commenced by service of a written demand for arbitration or written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Such an arbitration would be limited to the operation of the interim reimbursement provisions contained in the second and fifth paragraphs of this Section 8, and would not resolve the ultimate propriety or enforceability of the obligation to reimburse expenses which is created by the

provisions of the second and fifth paragraphs of this Section 8.

9. Conditions of Underwriter's Obligations. The obligation of the Underwriter to purchase the Firm Shares hereunder are subject to the following conditions:

(a) The Registration Statement shall have become effective not later than 5:30 p.m., New York City time, on the date hereof, or at such later date and time as shall be consented to in writing by you, and all filings required by Rules 497(h), 430A and 462 under the 1933 Act shall have been timely made, no order pursuant to Section 8(e) of the 1940 Act shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company, threatened by the Commission and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to your satisfaction.

(b) You shall be reasonably satisfied that since the respective dates as of which information is given in the Registration Statement and Prospectus, (i) there shall not have been any change in the capital stock of the Company or any material change in the indebtedness (other than in the ordinary course of business) of the Company, (ii) except as set forth or contemplated by the Registration Statement or the Prospectus, no material oral or written agreement or other transaction shall have been entered into by the Company which is not in the ordinary course of business and which could reasonably be expected to result in a material reduction in the future earnings of the Company, (iii) no casualty loss or damage (whether or not insured) to the property of the Company shall have been sustained which has or could reasonably be expected to have a Material Adverse Effect, (iv) no legal or governmental action, suit or proceeding affecting the Company or any of its properties which is material to the Company and its subsidiaries taken as a whole or which affects or could reasonable be expected to affect the transactions contemplated by this Agreement shall have been instituted or threatened, and (v) there shall not have been any change in the condition (financial or otherwise), business, management, results or operations or prospects of the Company or its subsidiaries having a Material Adverse Effect which makes it impractical or inadvisable in your judgment to proceed with the public offering or purchase the Shares as contemplated hereby.

(c) You shall have received on the Closing Date (and the Additional Closing Date, if any) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, as counsel for the Company, dated the Closing Date, satisfactory to you and your counsel, in substantially the form attached hereto as Exhibit A.

(d) You shall have received on the Closing Date an opinion of Greenberg Traurig, LLP, as counsel for the Underwriter, dated the Closing Date with respect to the issuance and sale of the Firm Shares, the Registration Statement and other related matters as you may reasonably request, and the Company and its counsel shall have furnished to your counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(e) You shall have received letters addressed to you and dated the date hereof and the Closing Date from the firm of PricewaterhouseCoopers LLP, independent certified public accountants, substantially in the forms heretofore approved by you.

(f) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall be pending or, to the knowledge of the Company, shall be threatened or contemplated by the Commission at or prior to the Closing Date; (ii) no order suspending the effectiveness of the Registration Statement or the qualification or registration of the Shares under the securities or Blue Sky laws of any jurisdiction shall be in effect and no proceeding for such purpose shall be pending or, to the knowledge of the Company, threatened or contemplated by the Commission or the authorities of any jurisdiction; (iii) any request for additional information on the

part of the staff of the Commission or any such authorities shall have been complied with to the satisfaction of the staff of the Commission or such authorities; (iv) after the date hereof no amendment or supplement to the Registration Statement or the Prospectus shall have been filed unless a copy thereof was first submitted to you and you did not object thereto in good faith; and (v) all of the representations and warranties of the Company contained in this Agreement shall be true and correct in all respects on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and you shall have received a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company (or such other officers as are acceptable to you) to the effect set forth in this Section 9(f) and in Sections 9(b) and 9(g) hereof.

(g) The Company shall not have failed in any material respect at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(h) The Company shall have furnished or caused to have been furnished to you such further certificates and documents as you shall have reasonably requested.

(i) At or prior to the effective date of the Registration Statement, you shall have received a letter from the Corporate Financing Department of the NASD confirming that such Department has determined to raise no objections with respect to the fairness or reasonableness of the underwriting terms and arrangements of the offering contemplated hereby.

(j) At or prior to the Closing Date, you shall have received Lock-Up Agreements from each of the Company's executive officers' and directors.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to you and your counsel.

The obligation of the Underwriter to purchase Additional Shares hereunder are subject to the satisfaction on and as of the Additional Closing Date of the conditions set forth in this Section 9, except that, if the Additional Closing Date is other than the Closing Date, the certificates, opinions and letters referred to in this Section 9 shall be dated as of the Additional Closing Date and the opinions called for by paragraph (c) shall be revised to reflect the sale of Additional Shares.

If any of the conditions hereinabove provided for in this Section 9 shall not have been satisfied when and as required by this Agreement, this Agreement may be terminated by you by notifying the Company of such termination in writing or by telegram at or prior to such Closing Date, but you shall be entitled to waive any of such conditions.

10. Effective Date of Agreement. This Agreement shall become effective upon the later of (a) the execution and delivery hereof by the parties hereto, and (b) release of notification of the effectiveness of the Registration Statement by the Commission; provided, however, that the provisions of Section 8 shall at all times be effective.

11. Termination of Agreement. This Agreement shall be subject to termination in your absolute discretion, without liability on the part of the Underwriter to the Company by notice to the Company, if prior to the Closing Date or the Additional Closing Date (if different from the Closing Date and then only as to the Additional Shares, as the case may be, (i) trading in the Company's common stock shall have been suspended by the Commission or the Nasdaq/NMS, (ii) trading in securities generally on the New York Stock Exchange, American Stock Exchange or Nasdaq/NMS shall have been suspended or materially limited, or minimum or maximum prices shall have been generally established on such exchange, or additional material governmental restrictions, not in force on the date of this Agreement, shall have been imposed upon trading in securities generally by any such exchange or by order of the Commission or any court or other governmental authority, (iii) a

general moratorium on commercial banking activities shall have been declared by either federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in political, financial or economic conditions or other material event the effect of which on the financial markets of the United States is such as to make it, in your good faith judgment, impracticable or inadvisable to market the Shares or to enforce contracts for the sale of the Shares. Notice of such cancellation shall be promptly given to the Company and its counsel by telegraph, telecopy or telephone and shall be subsequently confirmed by letter.

12. Information Furnished by the Underwriter. The Company acknowledges that (i) the paragraph immediately following footnote (3) on the cover page of the Prospectus, and (ii) the information under the caption "Underwriting" in any Prepricing Prospectus and in the Prospectus, constitute the only information furnished by or on your behalf as such information is referred to in Sections 6(a), 6(b) and 9 hereof.

13. Miscellaneous. Except as otherwise provided in Sections 5 and 12 hereof, notice given pursuant to any of the provisions of this Agreement shall be in writing and shall be delivered (i) if to the Company, to the office of the Company at 111 West 57 Street, Suite 1100, New York, New York 10019, Attention: Charles E. Harris, Chairman, President and Chief Executive Officer (with copy to Richard T. Prins, Esq., Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York 10036), or (ii) if to you, to Punk, Ziegel & Company, 520 Madison Avenue, New York, New York 10022, Attention Sagiv Shiv, Managing Director (with copy to Greenberg Traurig, LLP., 1221 Brickell Avenue, Miami, Florida 33131, Attention: Gary M. Epstein, Esq.).

This Agreement has been and is made solely for the benefit of the Underwriter, the Company, its directors and officers, and the other controlling persons referred to in Section 9 hereof, to the extent provided herein, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither of the terms "successor" and "successors and assigns" as used in this Agreement shall include a purchaser from you of any of the Shares in his status as such purchaser.

14. Applicable Law; Counterparts. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to choice of law principles thereunder.

This Agreement may be signed in various counterparts which together shall constitute one and the same instrument. This Agreement shall be effective when, but only when, at least one counterpart hereof shall have been executed on behalf of each party hereto.

The Company and the Underwriter each hereby irrevocably waive any right they may have to a trial by jury in respect to any claim based upon or arising out of this Agreement or the transactions contemplated hereby.

Please confirm that the foregoing correctly sets forth the agreement among the Company and the Underwriter.

Very truly yours,

HARRIS & HARRIS GROUP, INC.

By: _____
Charles E. Harris
Chairman and
Chief Executive Officer

CONFIRMED as of the date first above mentioned.

Punk, Ziegel & Company

By: _____

Name: _____

Title:

EXHIBIT A

Form of Skadden, Arps, Slate, Meagher & Flom LLP Opinion

1. The Company has been created and is in good standing and has a legal existence under the laws of the State of New York.
3. The Company has the power and authority to execute, deliver and perform all of its obligations under the Underwriting Agreement and the Transaction Documents and the execution and delivery of the Underwriting Agreement and the Transaction Documents and the consummation by the Company of all of the transactions contemplated thereby have been duly authorized by all requisite action on the part of the Company. Each of the Underwriting Agreement and the Transaction Documents has been duly authorized, executed and delivered by the Company.
4. Each of the Transaction Documents constitutes the valid and binding obligation of the Company enforceable against the Company in accordance with its terms under the Applicable Laws of the State of New York.
5. The execution and delivery by the Company of the Underwriting Agreement and each of the Transaction Documents and the performance by the Company of its obligations under the Underwriting Agreement and each of the Transaction Documents, each in accordance with its terms, do not (A) conflict with the Certificate of Incorporation or By-Laws of the Company, or (B) conflicts or will conflict with or constitutes or will constitute a breach of, or default under or creates or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, pursuant to any Applicable Contract. We do not express any opinion, however, as to whether the execution, delivery or performance by the Company of the Underwriting Agreement or the Transaction Documents will constitute a violation of, or a default under, any covenant, restriction or provision with respect to financial ratios or tests or any aspect of the financial condition or results of operations of the Company.
6. Neither the execution, delivery or performance by the Company of its obligations under the Underwriting Agreement or the Transaction Documents nor the compliance by the Company with the terms and provisions thereof will contravene any provision of Applicable Law or the 1940 Act or the 1940 Act Rules and Regulations in any material respect.
7. No Governmental Approval, which has not been obtained or taken and is not in full force and effect, is required to authorize, or is required in connection with, the execution and delivery of the Underwriting Agreement or any of the Transaction Documents or the enforceability of any of the Transaction Documents against the Company.
8. Neither the execution, delivery or performance by the Company of its obligations under the Underwriting Agreement or the Transaction Documents nor compliance by the Company with the terms and provisions thereof will contravene any Applicable Order.
9. The Company has duly elected to be a business development company under the 1940 Act; and the Certificate of Incorporation and By-Laws comply in all material respects with the 1940 Act and the 1940 Act Rules and Regulations.
10. The Shares have been duly authorized by all necessary action of the Company under the laws of the State of New York and, when issued to and paid for by the Underwriters in accordance with the Underwriting Agreement, will be validly issued, fully paid and non-assessable; the form of certificate that may be used to evidence the Common Shares complies in all material respects with the applicable requirements of

the Certificate of Incorporation, the By-Laws, the laws of the State of New York and the rules of the NASDAQ National Market, in each case as in effect on the date hereof. In rendering the opinion set forth in this paragraph 9, we have assumed that if a holder of Common Shares requests a certificate representing such holder's Common Shares, that such certificate will conform to the specimen examined by us and will have been signed by an authorized officer of the transfer agent and registrar for the Common Shares and registered by such transfer agent and registrar.

11. No holders of outstanding Common Shares are entitled as such to any preemptive or other similar rights with respect to the Shares under any Applicable Contract, under the Certificate of Incorporation or the By-Laws or under the laws of the State of New York.
12. No legal or governmental proceedings are pending to which the Company is a party that are required to be described in the Registration Statement or the Prospectus and are not so described therein, and no contract or other document is required to be described in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein or filed as required.
13. The filing of the Prospectus pursuant to Rule 497(h) under the 1933 Act Rules and Regulations has been made in the manner and within the time period required by Rule 497(h) of the 1933 Act Rules and Regulations.
14. No facts have come to our attention that have caused us to believe that the Registration Statement, at the time it became effective, appears on its face to be appropriately responsive in all material respects with the applicable requirements of the Securities Act, the Rules and Regulations, the Investment Company Act of 1940 and the rules and regulations promulgated thereunder and does not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, as of its date and as of the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except that in each case we do not express any view as to the financial statements and other financial and/or statistical data included therein or excluded therefrom or any of the schedules, appendices or exhibits (other than exhibit L) included or incorporated by reference to the Registration Statement.
15. Although the discussion in the Prospectus under the heading "Taxation" does not purport to discuss all possible United States federal income tax consequences relating to the taxation of the Company and the purchase, ownership and disposition of the Shares, such discussion constitutes, in all material respects, a fair summary of law and is based on our understanding of the Company's operations as disclosed in the Prospectus.

Exhibit L

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
FOUR TIMES SQUARE
NEW YORK, NY 10036-6522
(212) 735-3000

December 19, 2003

Harris & Harris Group, Inc.
111 West 57th Street, Suite 1100
New York, New York 10019

Re: Harris & Harris Group, Inc.
Registration Statement on Form N-2

Ladies and Gentlemen:

We have acted as special counsel to Harris & Harris Group, Inc., a New York corporation (the "Company"), in connection with the Underwriting Agreement, dated as of December 19, 2003 (the "Underwriting Agreement"), between you (the "Underwriter") and the Company, relating to the sale by the Company of 2,300,000 shares (the "Shares") of the Company's common shares of beneficial interest, par value \$0.001 per share (the "Common Shares").

This opinion is being furnished in accordance with the requirements of Item 24 of the Form N-2 Registration Statement under the Securities Act of 1933, (the "1933 Act"), and the Investment Company Act of 1940 (the "1940 Act").

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) notification of election to be subject to Sections 55 through 65 of the 1940 Act on Form N-54A, (ii) the Registration Statement of the Company on Form N-2 (File Nos. 333-110064 and 814-176), as filed with the Commission on October 29, 2003, and as amended by Pre-Effective Amendment No. 1 on November 6, 2003, as amended by Pre-Effective Amendment No. 2 on December 9, 2003, and as amended by Pre-Effective Amendment No. 3 on December 19, 2003, under the 1933 Act (such Registration Statement, as so amended and proposed to be amended, being hereinafter referred to as the "Registration Statement"); (iv) the form of the Underwriting Agreement (the "Underwriting Agreement") proposed to be entered into between the Company, as issuer, and Punk Ziegel & Company, as underwriter (the "Underwriter"), filed as an exhibit to the Registration Statement; (v) a specimen certificate representing the Common Shares; (vi) the Amended Certificate of Incorporation, as filed with the Secretary of the State of New York on November 14, 1996, and the Amended By-Laws of the Company as currently in effect; and (vii) certain resolutions adopted by the Board of Directors of the Company relating to the issuance and sale of the Shares and related matters. We also have examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company and such agreements, certificates of public officials, certificates of officers or other representatives of the Company and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such copies. In making our examination of documents, we have assumed that the parties thereto, other than the Company, had or will have the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof on such parties. We also have assumed that the Underwriting Agreement will be executed and delivered in substantially the form reviewed

by us and that the share certificates representing the Shares will conform to the specimen examined by us and will have been signed manually or by facsimile by an authorized officer of the transfer agent and registrar for the Common Shares and registered by such transfer agent and registrar. As to any facts material to the opinions expressed herein which we have not independently established or verified, we have relied upon statements and representations of officers and other representatives of the Company and others.

Members of our firm are admitted to the bar in the State of New York and we do not express any opinion as to any laws other than the laws of the State of New York.

Based upon and subject to the foregoing, we are of the opinion that when the Shares have been delivered to and paid for by the Underwriters as contemplated by the Underwriting Agreement, the issuance and sale of the Shares will have been duly authorized, and the Shares will be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement. We also consent to the reference to our firm under the caption "Legal Matters" in the Registration Statement. In giving this consent, we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the 1933 Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Skadden, Arps, Slate, Meagher & Flom LLP

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 of Harris & Harris Group, Inc. of our report dated March 18, 2003 relating to the financial statements and financial highlights, which appears in Harris & Harris Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002. We also consent to the references to us under the headings "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

New York, New York
December 19, 2003

CODE OF ETHICS FOR SECURITY TRADING & POLICY STATEMENT
REGARDING CORPORATE INFORMATION AND INSIDER TRADING

Pursuant to Rule 17j-1 Under the Investment Company Act of 1940

BACKGROUND

This Code of Ethics has been adopted by the Board of Directors of the Company in accordance with Rule 17j-1(b) under the Investment Company Act of 1940 (the "Act") and the May 9, 1994 Report of the Advisory Group on Personal Investing by the Investment Company Institute (the "Report"). Rule 17j-1 generally describes fraudulent or manipulative practices with respect to purchases or sales of securities held or to be acquired by investment companies if effected by access persons of such companies.

The purpose of this Code of Ethics is to reflect the following: (1) the duty at all times to place the interests of shareholders first; (2) the requirement that all personal securities transactions be conducted consistent with the Code of Ethics and in such a manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; and (3) the fundamental standard that investment company personnel should not take inappropriate advantage of their positions.

It shall be unlawful for any affiliated person or principal underwriter for a registered investment company or any "access person" (as such term is defined in this Code of Ethics) of an investment adviser or principal underwriter for a registered investment company in connection with the purchase or sale, directly or indirectly, by such person of a security held or to be acquired, as defined in this section, by such registered investment company:

- (a) To employ any device, scheme or artifice to defraud such registered investment company;
- (b) To make to such registered investment company any untrue statement of a material fact or omit to state to such registered investment company any material fact necessary in order to make the statements, in light of the circumstances under which they are made, not misleading;
- (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any such registered investment company; or
- (d) To engage in any manipulative practice with respect to such registered investment company.

APPLICATION

This Code of Ethics applies to the "access persons" of the Company (as such term is defined in this Code of Ethics). Each access person must receive, read, acknowledge receipt of and retain this Code of Ethics annually.

DEFINITIONS

For the purposes of this Code of Ethics, the following definitions shall apply:

- (a) "Affiliated Person" shall mean any person with power to vote 5% of outstanding securities of the Company or his employee or partner.
- (b) "Access Person" means any person with access to information on the Company's activity, including all officers/employees or

advisory persons (as defined below) of the Company.

- (c) "Advisory Person" of the Company means (1) any employee of the Company or any person in a control relationship to the Company who, in connection with his regular functions or duties, makes, participates in, or obtains information regarding the purchase or sale of a security (as defined below) by the Company, or whose functions relate to the making of any recommendations with respect to such purchases or sales; and (2) any other natural person, if any, in a control relationship to the Company who obtains information concerning recommendations made to the Company with regard to the purchase or sale of a security.
- (d) A security is "being considered for purchase or sale" when a recommendation to purchase or sell a security has been made and communicated or, with respect to the person making the recommendation, when such person seriously considers making such a recommendation.
- (e) "Beneficial Ownership" means an interest in securities, the benefits of which are enjoyed, directly or indirectly, by any person by reason of any contract, understanding, relationship (such as, for example, that of a spouse, children or other close family relationship), agreement or other arrangement, and by reason of which such person should be regarded as the true owner, although such securities may not be registered or standing on the books of the issuer in the name of such person. Thus, for example, securities held for a person's benefit in the names of others, such as nominees, trustees and other fiduciaries, securities held by any partnership of which a person is a partner, and securities held by any corporation which is controlled by a person (directly or through intermediaries), would be deemed to be beneficially owned by said person. Similarly, a person ordinarily obtains benefits equivalent to ownership from, and thus is generally regarded as the "beneficial owner" of, securities held in the name of a spouse, a minor child, or an immediate family member or a spouse. Other illustrations of benefits substantially equivalent to those of ownership include application of the income derived from securities to maintain a common home and application of the income derived from securities to meet expenses which the person otherwise would meet from other sources. Such interests which confer beneficial ownership of a security include having or sharing with another: (1) voting power, including the power to vote, or to direct the voting of, the security; and/or (2) investment power, including the power to dispose, or to direct the disposition, of such security. A person is also deemed to be the beneficial owner of securities which such person has the right to acquire beneficial ownership of such securities: (i) through the exercise of an option, warrant or right (including options traded on options exchanges) exercisable within 60 days; (ii) through the conversion of securities which are immediately convertible or will become convertible within 60 days; or (iii) pursuant to a power to revoke within 60 days; or (iv) pursuant to the automatic termination within 60 days of, a trust, discretionary account or similar arrangement. In addition, beneficial ownership is conferred if voting or investment power is shared with one or more other persons and, therefore, the same shares of stock may be deemed beneficially owned by a number of persons. The Securities and Exchange Commission ("SEC") regards securities held in trust for others as beneficially owned by the trustee if he has or shares voting or investment power with respect to such securities.
- (f) "Control" means the power of a stockholder to exercise a controlling influence over the management or policies of a company; control is not power solely as the result of an official position with such company.
- (g) "Independent Director" means director of the Company who is

not an "interested person" of the Company within the meaning of Section 2(a)(19) of the Act. A trustee or director is not deemed an interested person of the Company solely by reason of his being a member of the Board of Directors or an owner of shares of the Company.

- (h) "Investment Personnel" means portfolio managers who make decisions about the Company's public securities investments and analysts and traders who assist in the process.
- (i) "Material Non-public Information" is not expressly defined by The Insider Trading and Fraud Enforcement Act of 1988. Non-public information can best be described as information that comes to an employee through corporate channels that is not known or reasonably expected to be known by the general public. Material information is generally considered to be information that would be likely to influence an investment decision of a reasonable investor (i.e. would this piece of information influence the reasonable investor to buy or sell stock in a corporation because that person believed such information might affect the market price of the stock).
- (j) "Purchase or Sale of a Security" includes, among other things, the writing of an option to purchase or sell a security (as defined below).
- (k) "Security" shall have the meaning set forth in Section 2(a)(36) of the Act. In general, the term includes any interest or instrument commonly known as a security, except that it shall not include securities issued by the United States (including short-term debt securities issued or guaranteed as to principal or interest by the United States or by agencies of the Government of the United- States), bankers acceptances, bank certificates of deposit, commercial paper or shares of registered open-end investment companies.
- (l) "Insider Trading" shall mean the trading of any security while in the possession of material non-public information as to which the access person (1) has a duty to keep confidential or (2) knows or should have known was improperly obtained. Material information means information which is substantially likely to be considered important in making an investment decision by a reasonable investor, or information which is reasonably certain to have a substantial effect on the price of an issuer's securities. Information is non-public until it has been effectively communicated or made available to the market place.
- (m) "Interested Person" shall mean any affiliated person of such company, any affiliated person's family member, any interested person of any investment advisor or principal underwriter, legal counsel, broker dealers, or anyone the SEC deems to have a material professional relationship.

EXEMPTED TRANSACTIONS

The prohibitions of this Code of Ethics shall not apply to:

- (a) Government securities, banker acceptances, certificates of deposits, commercial paper, open ended mutual funds,(1) residential or commercial real estate, rated bonds, stock index options, futures and future options. These are exempt classes of securities.
- (b) Purchases or sales effected in any account over which the access person has no direct or indirect influence or control (independent investors) or in any account which is managed on a discretionary basis by a person other than such access person and with respect to which such access person does not in fact influence or control such transactions.

- (1) See page 10 of the May 9, 1994 Advisory Group on Personal Investing by the ICI
 - (c) Purchases or sales of securities which are not eligible for purchase or sale by the Company.
 - (d) Purchases or sales which are non-volitional on the part of either the access person or the Company.
 - (e) Purchases which are part of an automatic dividend reinvestment plan.
 - (f) Purchases effected upon the exercise of rights issued by an issuer, pro rata to all holders of a class of its securities, to the extent such rights were acquired from such issuer and sales of such rights so acquired.

RESTRICTIONS ON PERSONAL INVESTING ACTIVITY FOR ACCESS PERSONS

- 1) No access person shall reveal to any other person (except in the normal course of his duties on behalf of the Company) any information regarding securities transactions under consideration by the Company or consideration by the Company of any securities transaction.
- 2) No access person shall engage in "insider trading" whether for his own benefit or the benefit of the Company or others.
- 3) No access person shall make recommendations concerning the purchase or sale of securities by the Company without disclosing any interest such access person has in the securities or issuer, including, without limitation:
 - (a) any direct or indirect beneficial ownership of any securities of the issuer;
 - (b) any contemplated transaction by such person in such securities;and
 - (c) any present or proposed relationship with such issuer or its affiliates.
- 4) No access person of the Company shall participate in any securities transaction on a joint basis with the Company in violation of applicable law.
- 5) Investment Personnel⁽²⁾ are prohibited from acquiring any securities in an initial public offering.
- 6) Any acquisition of securities in a private placement requires prior approval of the chairman. Any investments in private placements by the chairman must be pre-approved by the chief compliance officer and one other officer. In each case, a determination must be made that

- (2) As defined in the May 9, 1994 Advisory Group on Personal Investing by the ICI

such security is either not an appropriate investment for the Company, or that such an investment will not result in any adverse effect on the Company.

- 7) Investment personnel are prohibited from receiving any gift or other things of more than de minimis value (less than \$100) from any person or entity that does business with or on behalf of the investment company. Gifts received in excess of \$50 must be listed on each employee's quarterly compliance statement.
- 8) Investment personnel must have the chairman's authorization to serve on any boards of directors of outside companies other than charitable and non-profit organizations and foundations. If Harris & Harris Group, Inc. has an investment in a company, permission is not necessary to serve on the board. In the case of the chairman of the Company, the Executive Committee shall approve

serving on any such board.

9) Management will prepare annually for review by the board of directors a statement for the minutes summarizing and reviewing the existing procedures concerning personal investing, identify any violations requiring significant remedial action during the past year and identify any recommended changes.

PROCEDURES FOR BUYING OR SELLING HHGP COMMON STOCK

1) Access persons and Directors, their children under age 21, and family members living in the same house will request in writing on the pre-clearance security trading approval form (Exhibit 1) for HHGP common stock to either the chairman, president, chief compliance officer or executive vice-presidents all trades in Harris & Harris Group, Inc.'s stock they wish to make. These requests will be kept on file by the Company clearly indicating the authorizing person's response. The chairman will request pre-clearance from either the president, chief compliance officer or executive vice-presidents. Any pre-clearance approval for trading in HHGP common stock is subject to withdrawal upon notification of HHGP being placed on the restricted stock list.

2) Access persons and Directors, their children under age 21, and family members living in the same house should inform the chief compliance officer when buying and selling HHGP stock after having cleared it with the chairman. The controller will assist with filing a Form 4.

3) Form 4 is required to be filed with the SEC and NASD within the first 10 days of the month following a purchase or sale transaction. A copy of broker's advice on any sale or purchase transaction must be sent to the controller, preferably by fax, so that a Form 4 may be completed accurately and on a timely basis.

4) Any failure to make accurate and timely Form 4 filings must be disclosed in the annual shareholders' proxy.

5) Directors and officers should note:

- (a) Short sales are strictly prohibited.
- (b) Short swing profits are recoverable by HHGP if a sale occurs within six months before or after the seller's purchase of HHGP common stock at a lower price.

GENERAL COMPLIANCE POLICY

1) All equity trades, including trades involving securities convertible into or exchangeable for equity securities, that access persons wish to make or have advised their children under 21, and family members living in the same house to make, must be approved in writing by either the chairman, president, chief compliance officer or executive vice-presidents on a pre-clearance security trading approval form (Exhibit 2). These forms will be kept on file by the company clearly indicating the authorizing person's approving signature. The chairman will request pre-clearance approval from either the president, chief compliance officer or executive vice-presidents. The authorizing person will not approve personal trades in a stock or a derivative of a stock including but not limited to a listed option if the Company has purchased or has an open buy/sell order in that stock or a derivative of that stock including but not limited to a listed option until seven days before or after the order is executed or withdrawn except if access person is exercising or rolling over an existing option or derivative position in which case, if in the judgement of the authorizing person such exercise or rollover would not be detrimental to the Company's interest, the seven-day restriction may be waived by the authorizing person.

2) The controller will notify all the access persons and the directors of the Company when the HHGP stock is placed on the restricted list or when it is

free to trade.

In order to avoid any appearance of impropriety, conflict with, or disadvantage to the Company, prior to effecting any transaction in HHGP stock, the directors must request pre-clearance from the chairman.

Each director will be asked quarterly to confirm in writing that such director, their children under 21, and family members living in the same house, have not purchased or sold HHGP stock during the period that such security was restricted without first having pre-cleared the transaction with the chairman.

3) Every access person, (independent directors are not considered access persons), will have their brokerage firm send duplicate monthly statements of all security accounts to the Company. These statements should reflect all transactions in which such access person is required to report under the Code. If an access person does not have a beneficial interest in a security account of their children under 21, and family members living in the same house, but does influence the purchase or sale of any equity securities or securities convertible into or exchangeable for equity securities, then all such transactions during any quarter shall be summarized in writing (name of family member, date of transaction, purchase or sale, number of shares, name of security, symbol and price per share) and reported by such access person to the chief compliance officer as of the quarter end. An access person shall not be required to have duplicate monthly statements sent with respect to: (i) any Government securities, banker acceptances, certificates of deposits, commercial paper, open ended mutual funds, as well as rated bonds, stock index options, futures and future options; (ii) any transactions effected in an account over which such person does not have any direct or indirect influence or control which includes spouses if they make independent decisions as outlined in Exempt Transactions; (iii) any account which is managed on a discretionary basis by a person other than such access person and with respect to which such access person does not in fact influence or control such transactions.

- A) Access persons will be asked quarterly to state that all security transactions and gifts required to be disclosed by the access person under the current code of ethics have been properly reported to the chief compliance officer.
- B) Access persons and all employees will certify annually that they have read and understand the Code of Ethics, that they have complied with the requirements of the Code of Ethics and that they have disclosed or reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of the Code.

4) The controller will notify all the access persons when a particular stock that the Company is interested in investing is placed on the restricted list or when it is free to trade.

5) All material non-public information that relates to the Company's internal business matters, business developments, business prospects or any other relevant business information shall in no circumstance be disclosed by any employee or Director of the Company to any person, including any person within the Company, unless that person is employed by the Company and has a need to know such information in connection with his or her employment or such person is employed by an outside firm (e.g. legal counsel and accountants) retained by the Company and that person needs to know the information to perform services for the Company. This policy also applies to information relating to the affairs of the Company's investees, customers, affiliates and business contacts.

6) All reports furnished pursuant to this Section will be kept confidential, subject to the rights of inspection by the Board of Directors of the Company and by the Securities and Exchange Commission.

SANCTIONS

Upon discovering a violation of this Code, the Board of Directors of the Company may impose such sanctions as it deems appropriate, including, among other things, a letter of censure or suspension or termination of the employment

of the violator.