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

Form 10-K

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

For the fiscal year ended December 31, 2002 Commission File No. 0-11576

HARRIS & HARRIS GROUP, INC.

(Exact Name of Registrant Specified in Its Charter)

New York	13-3119827
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

One Rockefeller Plaza, Rockefeller Center, New York, New York 10020

(Address of Principal Executive Offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, $ .01 par value

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2)

Yes [ ] No [X]

The aggregate market value of the common stock held by non-affiliates of Registrant as of June 28, 2002 was $22,643,078 based on the last sale price as quoted by the Nasdaq National Market on such date (only officers and directors are considered affiliates for this calculation).

As of March 17, 2003 the registrant had 11,498,845 shares of common stock, par value $.01 per share, outstanding.

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PART I

Item 1. Business

Harris & Harris Group, Inc. (the "Company") is a venture capital investment company, operating as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). The Company's investment objective is to achieve long-term capital appreciation, rather than current income, from its investments. The Company has invested a substantial portion of its assets in privately held start-up companies and in the development of new technologies in a broad range of industry segments. These privately held businesses generally tend to be thinly capitalized, unproven, small companies based on risky technologies that lack management depth and have as yet not attained profitability or have no history of operations. In early 2002, the Company decided to focus its new business activities on tiny technology, including but not limited to nanotechnology, microsystems and microelectromechanical systems (MEMS) technology. As a venture capital company, the Company invests in and provides managerial assistance to its portfolio companies which, in its opinion, have significant potential for growth. The Company is managed by its Board of Directors and officers and has no investment advisor.

The Company's website is www.TinyTechVC.com. The Company makes available free of charge through the Company's website: the Company's annual report on Form 10-K; the Company's quarterly reports on Form 10-Q; the Company's current reports on Form 8-K; and amendments to those reports as soon as reasonably practicable after filing or furnishing such materials to the Securities and Exchange Commission.

The Company intends to make its initial private equity investments in tiny-technology companies. For this purpose, tiny-technology companies are companies involved in nanotechnology, microsystems or microelectromechanical systems (MEMS). Although the Company intends to invest exclusively in companies involved significantly in tiny technologies, it may also make follow-on investments in existing portfolio companies involved in other technologies. This investment policy is not a fundamental policy and accordingly may be changed without shareholder approval, although the Company intends to give shareholders at least 60 days prior notice of any change in its policy.

Neither the Company's investments, nor an investment in the Company, is intended to constitute a balanced investment program. The Company expects to be risk seeking rather than risk averse in its investment approach. To such end, the Company reserves the fullest possible freedom of action, subject to its certificate of incorporation, applicable law and regulations, and policy statements contained herein. There is no assurance that the

Company's investment objective will be achieved.

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

The Company expects to make speculative investments with limited marketability and a greater risk of investment loss than less speculative issues. Although the Company recently decided to focus its new investments in tiny technology, such technology is enabling technology applicable to a wide range of fields and businesses, and the Company does not seek to invest in any particular industries or categories of investments. The Company's securities investments may consist of private, public or governmental issuers of any type. Subject to the diversification requirements pertaining to a regulated investment company ("RIC"), the Company may commit all of its assets to only a few investments.

Achievement of the Company's investment objectives is basically dependent upon the judgment of the Company's management. Charles E. Harris, Chairman and Chief Executive Officer of the Company, and a "control" person as defined in the 1940 Act, is primarily responsible, and Mel P. Melsheimer, President and Chief Operating Officer, is secondarily responsible, for making or supervising all investment decisions of the Company under the direction of the Company's Board of Directors. Douglas W. Jamison, Vice President, who joined the Company in September 2002, is rapidly becoming involved in the Company's investment process. There can be no assurance that a suitable replacement could be found for Mr. Harris in the event of his death, resignation, retirement or inability to act on behalf of the Company.

Subject to continuing to meet the tests for being a BDC, there are no limitations on the types of securities or other assets in which the Company may invest. Investments may include the following:

- Equity, equity-related securities (including warrants) and debt with equity features from either private or public issuers.

- Venture capital investments, whether in corporate, partnership or other form, including development stage or start-up entities.

- Intellectual property or patents or research and development in technology or product development that may lead to patents or other marketable technology.

- Debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity.

- Foreign securities.

- Miscellaneous investments.

The following is a brief description of the types of assets which the Company may invest in, the investment strategies the Company may utilize and the attendant risks associated with its investments and strategies:

Equity, Equity-Related Securities and Debt with Equity Features

The Company may invest in equity, equity-related securities and debt with equity features ("Equity Securities"). Equity 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.

Investments may be made 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. Such investments would involve businesses that management believes have turnaround potential through the infusion of additional capital and management assistance. In addition, the Company 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.

The Company 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 the Company invests in these securities, it incurs the risk that the option feature will expire worthless, thereby either eliminating or diminishing the value of the Company's 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 such registration, and therefore the opportunities for sale are more limited than in the case of marketable securities, although such investments may be purchased at more advantageous prices and may offer attractive investment opportunities. Even if the private company completed an initial public offering, the Company is typically subject to a lock-up agreement, and the stock price may decline substantially before the Company is free to sell. Even if the Company has registration rights to make its investments more marketable, a considerable amount of time may elapse between a decision to sell or register such securities for sale and the time when the Company is able to sell such securities, hence 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

The Company expects to invest in development stage or start-up businesses. These businesses tend to be undercapitalized, unproven small companies that lack management depth and have not attained profitability or have no history of operations. Tiny-technology companies have science and engineering risks in addition to commercialization risk. Because of the speculative nature of these investments by the Company and the lack of any market for the securities purchased by the Company, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize that potential.

The Company may own 100 percent of the securities of a start-up investment for a period of time and may control such company for a substantial period. 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 the Company's venture capital investments, it may be involved in recruiting management, formulating operating strategies, product development, marketing and advertising, assistance in financial plans, as well as providing other management services in the initial start-up stages and establishing corporate goals. The Company may assist in raising additional capital for such companies from other potential investors and may subordinate its own investment to that of other investors. The Company may also find it necessary or appropriate to provide additional capital of its own. The Company may introduce such companies to potential joint venture partners, suppliers and customers. In addition, the Company may assist in establishing relationships with investment bankers and other professionals. The Company may also assist with mergers and acquisitions. The Company may not derive income from such companies for the performance of any of the above services.

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

Following an initial investment in portfolio companies, the Company may make additional investments in such portfolio companies as "follow-on" investments, in order to: (1) increase or maintain in whole or in part its ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; (3) preserve its proportionate ownership in a subsequent financing; or (4) attempt to preserve or enhance the value of its investment. Recently, "pay to play" provisions have become common in venture capital transactions; such provisions require proportionate investment in subsequent rounds of financing in order to preserve certain preferred rights such as anti-dilution protection or to prevent preferred shares from being converted to common shares.

There can be no assurance that the Company will make follow-on investments or have sufficient funds to make such investments; the Company has the discretion to make any follow-on investments as it determines, subject to the availability of capital resources. The failure to make such follow-on investments may, in certain circumstances, jeopardize the continued viability of a portfolio company and the Company's initial investment, or may result in a missed opportunity for the Company to increase its participation in a successful operation, or may cause the Company to lose certain or all preferred rights pursuant to "pay to play" provisions. Even if the Company has sufficient capital to make a desired follow-on investment, it may elect not to make a follow-on investment because it may not want to increase its concentration of risk, because it prefers other opportunities or because it is inhibited by compliance with BDC or regulated investment company requirements.

Intellectual Property

The Company believes there is a role for organizations that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property perceive the need for and rewards of entrepreneurial commercialization of their inventions. The Company believes that its experience in organizing and developing new companies; its willingness to invest its own capital at the highest-risk seeding stage; its access to high-grade institutional sources of intellectual property; its knowledge of the capital markets; its experience with business incubators; and its willingness, on a selective basis, to do as much of the early work as it is qualified to do, combine to give it a value-added role to play in the commercialization of technology.

The Company's form of investment may be: l) funding of research and development in the development of a technology; 2) obtaining licensing rights to intellectual property or patents; 3) outright acquisition of intellectual property or patents; and 4) formation and funding of companies or joint ventures to further commercialize intellectual property. Income from its 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 loss of the Company's 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, the Company's investment may be transformed into ownership of securities of a development stage or start-up company as discussed under "Venture Capital Investments" above. Investment in intellectual property is highly risky.

Debt Obligations

The Company may hold debt securities for income and as a reserve pending more speculative investments. Debt obligations may include 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 such 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. The Company may invest in debt obligations of companies with operating histories that are unprofitable or marginally profitable; that have negative net worth or that are involved in bankruptcy or reorganization proceedings; or that are start-up or development stage entities. In addition, the Company may participate in the acquisition or divestiture of companies or divisions of companies through issuance or receipt of debt obligations.

It is likely that the Company's 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 such 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 the Company, with a commensurate effect on the value of its 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 the Company's 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. The public market for lower-rated securities and comparable non-rated securities is relatively new and has not fully weathered a major economic recession. Any such economic downturn could adversely affect the ability of issuers of lower-rated securities to repay principal and pay interest thereon. The market values of certain 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 due to default by such 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. The Company may incur additional expenses to the extent that it is required to seek recovery upon a default in the payment of principal or interest on its 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 such 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

The Company 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.

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 such investments to the Company 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 the Company's foreign securities may be subject to withholding and other taxes that may not be recoverable by the Company. The Company may seek to hedge all or part of the currency risk of its investments in foreign securities through the use of futures, options and forward currency purchases or sales.

In pursuit of the Company's investment strategy, it may employ one or more of the following strategies in order to enhance investment results.

Borrowing And Margin Transactions

The Company 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; and may issue, publicly or privately, bonds, debentures or notes, in series or otherwise, with such interest rates and other terms and provisions, including conversion rights, on a secured or unsecured basis, for any purpose of the Company, up to the maximum amounts and percentages permitted for business development companies under Sections 18 and 61 of the 1940 Act, or any successor statute or law, as the same may be amended from time to time, or as amplified or modified by rules adopted thereunder. The 1940 Act currently prohibits the Company from borrowing any money or issuing any other senior securities (other than preferred stock and other than temporary borrowings of up to five percent of its assets), if giving effect to such borrowing or issuance, the value of its total assets would be less than 200 percent of the total liabilities of the Company (other than liabilities not constituting senior securities). The Company may pledge assets to secure any such borrowings.

A primary purpose of the Company's borrowing power is for leverage, to increase its ability to acquire investments. Borrowings for leverage accentuate any increase or decrease in the market value of its investments and thus its net asset value. Since any decline in the net asset value of its 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 the Company were not leveraged. Any such 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 such borrowing, the Company's total income will be greater than if borrowings were not used. Conversely, if the income from such assets is not sufficient to cover the borrowing costs, the Company's total income will be less than if borrowings were not used. If the Company's current income is not sufficient to meet its borrowing costs (repayment of principal and interest), it might have to liquidate certain of its investments when it may be disadvantageous to do so. Borrowings by the Company for the purpose of buying liquid equity securities will be subject to the margin rules, which require excess liquid collateral marked to market daily. If the Company is unable to post sufficient collateral, the Company would be required to sell securities to remain in compliance with the margin rules. Any such sales might be at disadvantageous times or prices.

Portfolio Company Turnover

Changes with respect to portfolio companies will be made as management considers necessary in seeking to achieve its 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 the Company expects that many of its investments will be relatively long-term in nature, changes in particular portfolio holdings may be made 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. General portfolio changes may also be made to increase the Company's cash to position it in a defensive posture. Portfolio changes will be made without regard to the length of time an investment has been held, or whether a sale results in profit or loss, or a purchase results in the reacquisition of an investment which the Company may have only recently sold.

If management's evaluation of particular investments or general conditions changes frequently, portfolio changes may be expected to occur rapidly and with great frequency. 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.

Competition

Numerous companies and individuals are engaged in the venture capital business and such business is intensely competitive. Many of the competitors have significantly greater financial and other resources and managerial capabilities than the Company and are therefore in a better position than the Company to obtain access to attractive venture capital investments. There can be no assurance that the Company will be able to compete against these competitors for attractive investments.

Regulation

The Small Business Investment Incentive Act of 1980 added the provisions of the 1940 Act applicable to BDCs, which are a special type of closed-end investment company. After filing its election to be treated as a BDC, a company may not withdraw its election without first obtaining the approval of holders of a majority of its outstanding voting securities. The following is a brief description of the 1940 Act provisions applicable to BDCs, and is qualified in its entirety by reference to the full text of the 1940 Act and the rules issued thereunder by the SEC.

Generally, to be eligible to elect BDC status, a company must primarily engage in the business of furnishing capital and making significant managerial assistance available to companies which do not have ready access to capital through conventional financial channels. Such portfolio companies are termed "eligible portfolio companies." In general, in order to qualify as a BDC, a company must (i) be a domestic company; (ii) have registered a class of its securities pursuant to Section 12 of the Securities Exchange Act of 1934; (iii) operate for the purpose of investing in the securities of certain types of portfolio companies, namely, early stage or emerging companies and businesses suffering or just recovering from financial distress (see following paragraph); (iv) make available significant managerial assistance to such portfolio companies; and (v) file a proper notice of election with the SEC.

An eligible portfolio company generally is a domestic company that is not an investment company and that (i) does not have a class of equity securities on which "margin" credit can be extended or (ii) is controlled by a BDC (control under the 1940 Act is presumed to exist where a BDC owns at least 25 percent of the outstanding voting securities of the portfolio company).

The Company will be periodically examined by the SEC for compliance with the 1940 Act.

As with other companies regulated by the 1940 Act, a business development company must adhere to certain substantive regulatory requirements. A majority of the directors must be persons who are not interested persons, as that terms is defined in the 1940 Act.

Additionally, the Company is required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the business development company. Furthermore, as a business development company, the Company is prohibited from protecting any director or officer against any liability to the Company or the Company's shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

The 1940 Act prohibits or restricts companies subject to the 1940 Act from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the 1940 Act requires that at least 70 percent of the value of the Company's assets consist of qualifying assets. Qualifying assets include: (i) securities of companies that were eligible portfolio companies at the time the Company acquired their securities; (ii) securities of bankrupt or insolvent companies that were eligible portfolio companies at the time of the Company's initial investment in those companies; (iii) securities received in exchange for or distributed in or with respect to any of the foregoing; and (iv) cash items, government securities and high quality short-term debt. The 1940 Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered qualifying assets.

The Company is permitted by the 1940 Act, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock if its asset coverage, as defined in the 1940 Act, is at least 200 percent after the issuance of the debt or the preferred stock (i.e., such senior securities may not be in excess of its net assets). Under specific conditions, the Company is also permitted by the 1940 Act to issue warrants.

Except under certain conditions, the Company may sell its securities at a price that is below the prevailing net asset value per share only after a majority of its disinterested directors has determined that such sale would be in the best interest of the Company and its stockholders and upon the approval by the holders of a majority of its outstanding voting securities, including a majority of the voting securities held by non-affiliated persons. If the offering of the securities is underwritten, a majority of the disinterested directors must determine in good faith that the price of the securities being sold is not less than a price which closely approximates market value of the securities, less any

distribution discount or commission. As defined by the 1940 Act, the term "majority of the Company's outstanding voting securities" means the vote of (i) 67 percent or more of the Company's common stock present at the meeting, if the holders of more than 50 percent of the outstanding Common Stock are present or represented by proxy or (ii) more than 50 percent of the Company's outstanding common stock, whichever is less.

Certain transactions involving certain closely related persons of the Company, including its directors, officers and employees, may require the prior approval of the SEC. However, the 1940 Act ordinarily does not restrict transactions between the Company and its portfolio companies.

Sub-Chapter M Status

The Company has elected to be treated as a Regulated Investment Company (a "RIC"), taxable under Sub-Chapter M of the Internal Revenue Code (the "Code"), for federal income tax purposes . In general, a RIC is not taxable on its income or gains to the extent it distributes such income or gains to its shareholders. In order to qualify as a RIC, the Company must, in general, (1) annually derive at least 90 percent of its gross income from dividends, interest and gains from the sale of securities and similar sources (the "Income Source Rule"); (2) quarterly meet certain investment asset diversification requirements; and (3) annually distribute at least 90 percent of its investment company taxable income as a dividend (the "Income Distribution Rule"). Any taxable investment company income not distributed will be subject to corporate level tax. Any taxable investment company income distributed generally will be taxable to shareholders as dividend income.

In addition to the requirement that the Company must annually distribute at least 90 percent of its investment company taxable income, the Company may either distribute or retain its realized net capital gains from investments, but any net capital gains not distributed may be subject to corporate level tax. Any net capital gains distributed generally will be taxable to shareholders as long-term capital gains.

If necessary for liquidity purposes or to fund investment opportunities, in lieu of actually distributing its realized net capital gains, the Company as a RIC may retain such net capital gains and elect to be deemed to have made a distribution of the gains, or part thereof, to its shareholders under the "designated undistributed capital gain" rules of the Code. In that case, the "deemed dividend" generally will be taxable to the shareholders as long-term capital gains, although the Company would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid.

To the extent that the Company declares a deemed dividend, each shareholder will receive an IRS Form 2439 which will reflect receipt of the deemed dividend income and a tax credit equal to the shareholder's proportionate share of the tax paid by the Company. This tax credit, which is paid at the corporate rate, is often credited at a higher rate than the actual tax due by a shareholder on the deemed dividend income. The "residual" credit can be used

by the shareholder to offset other taxes due in that year or to generate a tax refund to the shareholder. (See "Note 6 of Notes to Consolidated Financial Statements" contained in Item 8. "Consolidated Financial Statements and Supplementary Data" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments - Sub-Chapter M Status.")

The following simplified examples illustrate the tax treatment under Sub-Chapter M of the Code for the Company and its individual shareholders with regard to three possible distribution alternatives, assuming a net capital gain of $1.00 per share, consisting entirely of sales of non-real property assets held for more than 12 months.

Under Alternative A: 100 percent of net capital gain declared as a cash dividend and distributed to shareholders:

1. No federal taxation at the Company level.

2. Taxable shareholders receive a $1.00 per share dividend and pay a maximum federal tax of 20 percent* or $.20 per share, retaining $.80 per share.

Under Alternative B: 100 percent of net capital gain retained by the Company and designated as "undistributed capital gain" or deemed dividend:

1. The Company pays a corporate-level federal income tax of 35 percent on the undistributed gain or $.35 per share and retains 65 percent of the gain or $.65 per share.

2. Taxable shareholders increase their cost basis in their stock by $.65 per share. They pay a 20 percent* federal capital gains tax on 100 percent of the undistributed gain of $1.00 per share or $.20 per share in tax. Offsetting this tax, shareholders receive a tax credit equal to 35 percent of the undistributed gain or $.35 per share.

Under Alternative C: 100 percent of net capital gain retained by the Company, with no designated undistributed capital gain or deemed dividend:

1. The Company pays a corporate-level federal income tax of 35 percent on the retained gain or $.35 per share plus an excise tax of four percent of $.98 per share, or about $.04 per share.

2. There is no tax consequence at the shareholder level.

*Assumes all capital gains qualify for long-term rates of 20 percent.

Although the Company may retain income and gains subject to the limitations described above (including paying corporate level tax on such amounts), the Company could be subject to an additional four percent excise tax if it fails to distribute 98 percent of its aggregate annual taxable income.

As noted above, in order to qualify as a RIC, the Company quarterly must meet certain investment asset diversification requirements. Because of the specialized nature of its investment portfolio, the Company has been able to satisfy the diversification requirements under Sub-Chapter M of the Code only as a result of its receipt of certifications from the SEC under the Code with respect to each taxable year beginning after 1998 that it was "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" for such year.

Although the Company received SEC certifications for 1999-2001, there can be no assurance that the Company will receive such certification for 2002 or subsequent years (to the extent it needs additional certifications as a result of changes in its portfolio). If the Company requires, but fails to obtain, the SEC certification for a taxable year, the Company will fail to qualify as a RIC for such year. The Company will also fail to qualify as a RIC for a taxable year if it does not satisfy the Income Source Rule or Income Distribution Rule for such year. In the event the Company does not qualify as a RIC for any taxable year, it will be subject to federal tax with respect to all of its taxable income, whether or not distributed. In addition, all distributions from the Company in that situation generally will be taxable as ordinary dividends.

Although the Company generally intends to qualify as a RIC for each taxable year, under certain circumstances the Company may choose to take action with respect to one or more taxable years to ensure that it would be taxed under Sub-Chapter C of the Code (rather than Sub-Chapter M) for such year or years. The Company will take such action only if it determines that the result of the action will benefit the Company and its shareholders.

Prior to 1999, the Company was taxable under Sub-Chapter C of the Code (a "C Corporation"). Under the Code, a C Corporation that elects to be treated as a RIC for federal tax purposes is taxable on the effective date of the election to the extent of any gain built into its assets ("C Corporation Assets") on such date ("Built-In Gain"). However, a C Corporation may elect alternatively to be taxable on such Built-In Gain as such gain is realized during the 10-year period beginning on the effective date of its RIC election (the "Inclusion Period"). The Company had Built-In Gains at the time of its qualification as a RIC and elected to be taxed on any Built-In Gain realized during the Inclusion Period. Prior to 1999, the Company incurred ordinary and capital losses from its operations. After the Company's election of RIC status, those losses remained available to be carried forward to subsequent taxable years. Recently issued Internal Revenue Service regulations confirm that such losses may be used to offset realized Built-In Gains and, to the extent so used, to eliminate C Corporation taxation of such gains. The Company has previously used loss carryforwards to offset Built-In Gains. As of January 1, 2003, the Company had $501,640 of loss carryforwards remaining and $4,663,457 of unrealized Built-In Gains.

Subsidiaries

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100 percent wholly owned subsidiary of the Company and is consolidated in the Company's financial statements. Enterprises holds the lease for the Company's office space, which it subleases to the Company and an unaffiliated party; operates a financial relations and consulting firm; is a partner in Harris Partners I, L.P. and is taxed as a C Corporation. Harris Partners I, L.P. is a limited partnership and, until December 31, 2002, owned a 20 percent limited partnership interest in PHZ Capital Partners L.P., which organizes and manages investment partnerships. The partners of Harris Partners I, L.P. are Harris & Harris Enterprises, Inc. (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

Employees

The Company currently employs directly five full-time employees, and Enterprises employs one additional full-time and one part-time employee.

Risk Factors

Investing in the Company involves a number of significant risks relating to the Company's business and investment objectives. In addition to the risks set forth below, other risks that could impact the Company's business and investment objectives include:

- o the ongoing global economic downturn, coupled with the war in Iraq;

- o risks associated with the possible disruption of the Company's operations due to terrorism; and

- o other risks and uncertainties as may be detailed from time to time in the Company public announcements or SEC filings.

Investing in the Company's stock is highly speculative and the investor could lose some or all of the amount invested.

The value of the Company's 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 the Company's shares of 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 the Company's focus on the technology and very small capitalization sectors and because it is a small capitalization company, its stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the life sciences, nanotechnology, tiny technology, material sciences, Internet and information technology and other high technology industries, will also affect the Company's stock price. During the first quarter of 2002, the Company decided to make its initial equity investments in tiny-technology companies, including

nanotechnology, microsystems and microelectromechanical systems (MEMS). Tiny technology investments are new and especially risky, involving science and technology risks as well as commercialization risks.

Investing in the Company's common stock may be inappropriate for the investor's risk tolerance.

The Company's investments, in accordance with its investment objective and principal strategies, result in a far above average amount of risk and volatility and may well result in loss of principal. The Company's investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for investors for whom such risk is inappropriate.

The Company operates in a highly competitive environment.

The market for venture capital investments, including tiny technology investments, is highly competitive. In addition to finding attractive investment opportunities, in some cases, the Company's status as a regulated business development company may hinder its ability to participate in investment opportunities or to protect the value of existing investments because of "pay to play" provisions or other coercive provisions which have become more common in venture capital investing since the general stock market decline began in 2000, in which preferred protections such as dilution protection may be forfeited or preferred stock may be converted to common stock by failure to invest in subsequent rounds of financing.

The Company faces substantial competition in its investing activities from private venture capital funds, investment affiliates of large industrial, technology, service and financial companies, small business investment companies, wealthy individuals and foreign investors. As a result, the sources of funding are many, but attractive investment opportunities are too few. Hence, the Company faces substantial competition in sourcing good investment opportunities on terms of investment that are commercially attractive. Further, as a regulated business development company, the Company is required to disclose quarterly the name and business description of portfolio companies and value of any portfolio securities. Most of the Company's competitors are not subject to such disclosure requirements. The Company's obligation to disclose such information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make the Company less attractive as a potential investor to a given portfolio company than a private venture capital fund not subject to the same regulations. Also, compliance with certain regulations applicable to the Company's business may prevent or discourage the Company from making follow-on investments that would be in the Company's and its investors' best interest.

The Company operates in a regulated environment.

The Company is subject to substantive SEC regulations as a BDC. Securities and tax laws and regulations governing the Company's activities may change in ways adverse to the Company's and its shareholders' interests and interpretations of such laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern the Company's business could have an adverse impact on the Company or its operations. Also, as business and financial practices continue to evolve, they may render the regulations under which the Company operates less appropriate and more burdensome than they were when originally imposed.

The Company is dependent upon key management personnel for future success.

The Company is dependent for the selection, structuring, closing and monitoring of its investments on the diligence and skill of its senior management and other management members. The Company utilizes outside consultants, including two of its directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, and lawyers to assist the Company in conducting due diligence when evaluating potential investments. The future success of the Company depends to a significant extent on the continued service and coordination of its senior management team, particularly Charles E. Harris, the Company's Chairman and Chief Executive Officer. The departure of any of the executive officers or key employees could materially adversely affect the Company's ability to implement its business strategy. The Company does not maintain for its benefit any key man life insurance on any of its officers or employees.

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

There are significant risks inherent in the Company's venture capital business. The Company has invested a substantial portion of its assets in privately held development stage or start-up companies. These privately held businesses tend to be thinly capitalized, unproven, small companies with risky technologies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Company has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. Tiny technology companies in particular are unproven, with significant science and technology risks as well as commercialization risks. The Company has in the past relied, and continues to rely, upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Such sales are unpredictable and may not occur.

The Company invests in securities that are illiquid and may not be able to dispose of such securities when it is advantageous to do so.

Most of the investments of the Company are or will be equity securities acquired directly from small companies. The Company makes many of its portfolio investments with the view of holding them for a number of years. The Company's portfolio of equity securities are and will usually be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of the Company's portfolio of equity securities may adversely affect the ability of the Company to dispose of such securities at times when it may be advantageous for the Company to liquidate such investments.

The inability of the Company's portfolio companies to market successfully their products would have a negative impact on its investment returns.

Even if the Company's 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 the Company's portfolio companies may not be successful.

Because there is generally no established market in which to value the Company's investments, the Company's Investment and Valuation Committee's determination of their values may differ materially from the values that a ready market or third party would attribute to these investments.

There is typically no public market for equity securities of the small privately held companies in which the Company invests. As a result, the valuation of most of the equity securities in the Company's portfolio is subject to the good faith determination of the Company's Investment and Valuation Committee within the guidelines established by the Board of Directors. (See "Asset Valuation Policy Guidelines" in "Footnote to Consolidated Schedule of Investments" contained in Item 8. "Consolidated Financial Statements and Supplementary Data.") In the absence of a readily ascertainable market value, the value of the Company's portfolio of equity securities may differ significantly from the values that would be placed on the portfolio if a ready market for the equity securities existed. The Company adjusts quarterly the valuation of its portfolio to reflect the Investment and Valuation Committee's determination of the current fair value of each investment in its portfolio. Any changes in estimated fair value are recorded in the Company's consolidated statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments." (See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

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

The Company's quarterly operating results could 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 the Company and its portfolio companies encounter competition in their markets and general economic and market 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. (See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

Loss of pass-through tax treatment would substantially reduce net assets and income available for dividends.

The Company currently qualifies as a RIC under the Code for effective pass-through tax treatment because, among other factors, it meets certain diversification and distribution requirements under the Code. The Company would cease to qualify for pass-through tax treatment if it were unable to comply with these requirements. The Company also could be subject to a four percent excise tax (and, in certain cases, corporate level income tax) if it failed to make certain gain or income distributions. (See "Sub-Chapter M Status" contained in Item 1. "Business.") The lack of pass-through tax treatment could have a material adverse effect on the total return, if any, obtainable from an investment in the Company. If the Company fails to qualify as a RIC, the Company would become subject to federal income tax as if it were an ordinary C Corporation, which tax would result in a corresponding reduction in the Company's net assets and the amount of income available for distribution to the Company's stockholders. Loss of RIC status could have an adverse effect on the price of the Company's common stock.

During some periods, there are few opportunities to take early stage companies public or sell them to established companies.

During some periods, there may be few opportunities to gain liquidity or realize a gain on an otherwise successful investment, as the market for initial public offerings may be moribund, particularly for early stage, high technology companies. During such periods or other periods, it may also be difficult to sell such companies to established companies. The lack of exit strategies during such periods also tends to have an adverse effect on the ability of private equity companies to raise capital privately. Thus, the Company's business and the Company's common stock are unusually vulnerable to adverse economic and capital markets conditions.

Because the Company must distribute income, the Company will continue to need additional capital to fund its investments and operating expenses.

The Company will continue to need capital to fund investments and to pay for operating expenses. As a RIC, the Company annually must distribute at least 90 percent of its investment company taxable income as a dividend and may either distribute or retain its realized net capital gains from investments. As a result, such earnings may not be available to fund investments. If the Company fails to generate net realized long-term capital gains or to obtain funds from outside sources, it could have a material adverse effect on the Company's financial condition and results as well as its ability to make follow-on and new investments. The Company is not permitted to establish reserves for taxes on unrealized capital gains. In addition, as a BDC, the Company is generally required to maintain a ratio of at least 200 percent of total assets to total borrowings, which may restrict its ability to borrow in certain circumstances.

Loss of status as a RIC could reduce the Company's net asset value by forcing it to establish currently unestablished reserves for taxes.

As a RIC, the Company generally does not pay federal income taxes on its income that is distributed to its shareholders. It is not permitted to establish reserves for taxes on its unrealized capital gains. If the Company failed to qualify for RIC status, to the extent that it had unrealized capital gains, it would have to establish such reserves for taxes, which would reduce its net asset value accordingly, net of a reduction in any reserve for employee profit sharing. When the Company, as a RIC, decides to make a deemed distribution of net realized capital gains and to retain such net realized capital gains, it has to establish appropriate reserves for taxes upon making such a decision and subsequently pay such taxes.

Leveraging by the Company could result in making the Company's total return to common shareholders more volatile.

Leverage entails two primary risks. The first risk is that the use of leverage magnifies the impact on the common shareholders of changes in net asset value. For example, a fund 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 leverage will exceed the return on the securities acquired with the proceeds of leverage, thereby diminishing rather than enhancing the return to common shareholders. If the Company were to utilize leverage, these two risks would generally make its total return to common shareholders more volatile. In addition, the Company might be required to sell investments in order to meet dividend or interest payments on the debt or preferred stock when it might be disadvantageous to do so.

As provided in the 1940 Act and subject to certain exceptions, the Company can issue debt or preferred stock so long as its total assets immediately after such issuance, less certain ordinary course liabilities, exceed 200% of the amount of the debt

outstanding and exceed 200% of the sum of the amount of the preferred stock and debt outstanding. Such debt or preferred stock may be convertible in accordance with SEC guidelines which may permit the Company to obtain leverage at attractive rates. A leveraged capital structure creates certain special risks and potential benefits not associated with unleveraged funds having similar investment objectives and policies. Any investment income or gains from the capital represented by preferred shares or debt which is in excess of the dividends payable thereon will cause the total return of the common shares to be higher than would otherwise be the case. Conversely, if the investment performance of the capital represented by preferred shares or debt fails to cover the dividends payable thereon, the total return of the common shares would be less or, in the case of negative returns, would result in higher negative returns to a greater extent than would otherwise be the case. 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 the common shares means that dividends on the common shares from earnings may be reduced or eliminated. Although an inability to pay dividends on the common shares could conceivably result in the Company ceasing to qualify as a RIC under the Code, which would be materially adverse to the holders of the common shares, such inability could be avoided through the use of mandatory redemption requirements designed to ensure that the Company maintains the necessary asset coverage.

Unfavorable economic and capital markets conditions could result in financial losses for the Company as well as impair its ability to engage in liquidity events.

Most of the companies in which the Company has made or will make investments are susceptible to economic slowdowns or recessions. An economic slowdown, capital markets conditions or credit squeeze may affect the ability of a company to raise additional capital from venture capital or other private equity sources or to engage in a liquidity event such as an initial public offering or merger. These conditions greatly increase the probability of financial losses in the Company's portfolio. Unfavorable economic and capital markets conditions also tend to increase the Company's cost of capital and restrict the Company's access to capital.

The Company's business of making private equity investments and positioning them for liquidity events also may be adversely affected by current and future market and economic conditions. Significant changes in the public equity markets could have an effect on the valuations of privately held companies and on the potential for liquidity events involving such companies, and such changes could adversely affect the amount and timing of gains that may be realized on the Company's investments.

The Company invests in privately held companies that may complete initial public offerings. These types of companies can be highly volatile and have uncertain liquidity.

When companies in which the Company has invested as private entities complete initial public offerings, they are by definition unseasoned issues. Typically, they have relatively small capitalizations. Thus, they can be expected to be highly volatile and of uncertain liquidity. If they are perceived as suffering from adverse news or developments and/or the capital markets are in

a negative phase, not only their market prices, but also their liquidity can be expected to be affected negatively. Historically, the Company has also invested in unseasoned publicly traded companies with similar characteristics and thus with similar exposure to potential negative volatility and illiquidity. In addition, the imposition of decimalization on the stock exchanges, particularly Nasdaq, may have reduced liquidity and increased volatility and riskiness of small, thinly traded public companies because it may have lessened the incentive for dealers to market and make markets in smaller issues. In general, reforms of Nasdaq intended to make it a more visible and efficient market may have had the effect of making it unprofitable for dealers to make markets in smaller issues, thereby decreasing the liquidity of such issues.

Item 2. Properties

The Company maintains its offices at One Rockefeller Plaza, New York, New York 10020, where it leases approximately 4,700 square feet of office space pursuant to a lease agreement expiring in 2003. A portion of this space is being sublet by an unaffiliated party. (See "Note 7 of Notes to Consolidated Financial Statements and Schedules" contained in Item 8. "Consolidated Financial Statements and Supplementary Data.")

Item 3. Legal Proceedings

The Company is not a party to any legal proceedings.

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

On October 15, 2002, the Company held its Annual Meeting of Shareholders for the following purposes (1) to elect directors of the Company; (2) to ratify, confirm and approve the Audit

Committee's selection of PricewaterhouseCoopers LLP as the Company's independent accountant for its fiscal year ending December 31, 2003; (3) to approve a proposal to authorize the Company to offer rights to purchase shares of the Company's common stock; and (4) to approve a proposal to authorize the amendment and restatement of the Company's existing Employee Profit-Sharing Plan. At the close of business on the record date (August 16, 2002), an aggregate of 11,498,845 shares of common stock were issued and outstanding.

All of the nominees at the October 15, 2002 Annual Meeting were elected directors:

Nominees	For	Withheld
Dr. C. Wayne Bardin	10,420,875	73,139
Dr. Phillip A. Bauman	10,418,004	76,010
G. Morgan Browne	10,421,239	72,775
Dugald A. Fletcher	10,398,193	95,821
Charles E. Harris	10,420,519	73,495
Dr. Kelly S. Kirkpatrick	10,408,654	85,360
Glenn E. Mayer	10,393,401	100,613
Lori D. Pressman	10,415,667	78,347
James E. Roberts	10,399,622	94,392

With respect to proposal number two, described as a proposal "to ratify, confirm and approve the Audit Committee's selection of PricewaterhouseCoopers LLP" as the Company's independent accountant for its fiscal year ending December 31, 2003, the affirmative votes cast were 10,390,522, the negative votes cast were 39,402 and those abstaining were 64,090.

With respect to proposal number three, described as a proposal "to authorize the Company to offer rights to purchase shares of the Company's common stock at an exercise price that, at

the time such rights are issued, will not be less than the greater of the market value of the Company's common stock or the net asset value of the Company's common stock. Such rights may be part of or accompanied by other securities of the Company (such as convertible preferred stock or convertible debt)." The affirmative votes cast were 5,919,699, the negative votes cast were 290,295 and those abstaining were 113,546.

With respect to proposal number four, described as a proposal "to authorize the amendment and restatement of the Company's existing Employee Profit-Sharing Plan," the affirmative votes cast were 10,041,081, the negative votes cast were 317,023 and those abstaining were 135,910.

PART II

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

Stock Transfer Agent

The Bank of New York, 101 Barclay Street, Suite 12W, New York, New York 10286 (Telephone 800-524-4458, Attention: Ms. Annette Hogan) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Market Prices

The Company's common stock is traded on the Nasdaq National Market under the symbol "TINY." The following table sets forth the range of the high and low selling price of the Company's shares during each quarter of the last two years, as reported by Nasdaq National Market. The quarterly stock prices quoted represent interdealer quotations and do not include markups, markdowns or commissions.

2002 Quarter Ending	Low	High
March 31	$1.80	$5.50
June 30	$2.74	$5.10
September 30	$2.00	$2.99
December 31	$1.85	$2.49

2001 Quarter Ending	Low	High
March 31	$2.063	$4.25
June 30	$2.01	$3.29
September 30	$1.60	$2.86
December 31	$1.55	$2.33

Dividends

On January 22, 2002, the Company announced a deemed dividend of $0.0875 per share for 2001 for a total of $775,620, and in 2002 the Company paid federal income taxes on behalf of shareholders of $0.030625 per share for a total of $271,467. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

The Company did not pay a cash dividend or declare a deemed dividend for 2002.

Recent Sales of Unregistered Securities

The Company did not sell any equity securities during 2002 that were not registered under the Securities Act of 1933.

Shareholders

As of February 10, 2003, there were approximately 150 holders of record of the Company's common stock which, the Company has been informed, hold the Company's common stock for approximately 5,335 beneficial owners.

Item 6. Selected Financial Data

The following tables should be read in conjunction with the Consolidated Financial Statements and Supplementary Data included in Item 8 of this Form 10-K.

<TABLE>
<CAPTION>

BALANCE SHEET DATA

Financial Position as of December 31:

<S>	<c> 2002	<c> 2001	<c> 2000	<C> 1999(1)	<C> 1998(1)
Total assets	$35,951,969	$39,682,367	$43,343,423	$65,320,768	$25,358,859
Total liabilities	$ 8,695,923	$15,347,597	$11,509,948	$11,685,963	$ 2,802,150
Net assets	$27,256,046	$24,334,770	$31,833,475	$53,634,805	$22,556,709
Net asset value per outstanding share	$ 2.37	$ 2.75	$ 3.51	$ 5.80	$ 2.13
Cash dividends paid	$ 0.00	$ 0.00	$ 0.02	$ 0.35	$ 0.75
Shares outstanding	11,498,845	8,864,231	9,064,231	9,240,831	10,591,232

Operating Data for year ended December 31:

	2002	2001	2000	1999	1998
Total investment income	$ 253,461	$ 510,661	$ 687,050	$ 287,684	$ 585,486
Total expenses(2)	$ 2,124,549	$ 1,035,221	$(2,623,200)	$ 9,924,020	$ 3,634,786
Net operating income (loss)	$(1,871,088)	$ (524,560)	$ 3,310,250	$(9,636,336)	$(2,815,112)
Net realized gain (loss) on investments	$ 2,390,302	$ 1,276,366	$18,963,832	$ 8,615,670	$(1,718,528)
Net realized					

income (loss)	$ 519,214	$ 751,806	$22,274,082	$(1,020,666)	$(4,533,640)
Net (decrease) increase in unrealized appreciation on investments	$ (3,241,408)	$(7,641,044)	$(37,781,289)	$38,102,047	$ 1,655,830
Net (decrease) increase in net assets resulting from operations	$ (2,722,194)	$(6,889,238)	$(15,507,207)	$37,081,381	$(2,877,810)
(Decrease) increase in net assets resulting from operations per outstanding share	$ (0.24)	$ (0.78)	$ (1.71)	$ 4.01	$ (0.27)

</TABLE>

(1) Certain reclassifications have been made to the December 31, 1998 and December 31, 1999 financial statements to conform to the December 31, 2000 presentation. Note: See "Reclassifications" in Note 2 of Notes to Consolidated Financials.

(2) Included in total expenses are the following profit-sharing (reversals) accruals: ($163,049) in 2002; ($984,021) in 2001; ($4,812,675) in 2000; $8,110,908 in 1999; $899,751 in 1998.

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

The information contained in this section should be read in conjunction with the Company's 2002 Consolidated Financial Statements and notes thereto.

Forward-Looking Statements

The information contained herein contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives, portfolio growth and availability of funds. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth herein. (See "Risk Factors" contained in Item 1. "Business.") Other factors that could cause actual results to differ materially include the uncertainties of economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements included herein are reasonable, any of the assumptions could be inaccurate and therefore there can be no assurance that the forward-looking statements included or incorporated by reference herein will prove to be accurate. Therefore, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

Statement of Operations

The Company accounts for its operations under accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets resulting from operations," which is the sum of three elements. The first element is "Net operating income (loss)," which is the difference between the Company's income from interest, dividends, fees and other income and its operating expenses, net of applicable income tax benefit (expense). The second element is "Net realized income (loss) from investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost, net of applicable income tax benefit (expense). These two elements are combined in the Company's financial statements and reported as "Net realized income (loss)." The third element, "Net (decrease) increase in unrealized appreciation on investments," is the net change in the fair value of the Company's investment portfolio.

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

Business and Capital Markets Conditions

General business and capital markets conditions in 2002 and 2003 have been quite adverse for the venture-capital industry. Conditions for the telecommunications-related investments have been especially harsh. As a result, there have been few opportunities to take venture-capital backed companies public or sell them to established companies. It has also been difficult to finance them privately. In addition, it has been difficult for venture-capital firms themselves to raise capital. Under these adverse conditions, the Company was fortunate to be able to raise capital in a rights offering and to effect the profitable liquidation of its interest in PHZ Capital Partners L.P.

Financial Condition

At December 31, 2002 as compared with December 31, 2001, the Company's total assets decreased by $3,730,398 or 9.4 percent to $35,951,969 and its net assets increased by $2,921,276 or 12.0 percent to $27,256,046.

Net asset value per share ("NAV") was $2.37 at December 31, 2002, versus $2.75 at December 31, 2001.

At December 31, 2001 as compared with December 31, 2000, the Company's total assets decreased by $3,661,056 or 8.4 percent to $39,682,367 and its net assets decreased by $7,498,705 or 23.6 percent to $24,334,770.

Net asset value per share ("NAV") was $2.75 at December 31, 2001 versus $3.51 at December 31, 2000. NAV was reduced by $0.02 in 2000 by the cash dividend paid by the Company.

Among the significant developments during the year ended December 31, 2002 were: (1) payment of $271,467 in federal income taxes as a result of the Company's deemed dividend distribution; (2) decline in the value of the Company's investment in Continuum Photonics, Inc. of $481,011; (3) decline in the value of the Company's investment in Experion Systems, Inc. of $580,706; (4) decline in the value of the Company's investment in Kriton Medical, Inc. of $1,000,001; (5) decline in the value of the Company's investment in NanoOpto Corporation of $596,600; (6) decline in the value of the Company's investment in NeoPhotonics Corporation of $569,560; (7) decline in the value of the Company's investment in NeuroMetrix, Inc. of $1,986,081; (8) decrease in bank loan payable of $12,495,777; (9) net proceeds of $5,643,470 from a rights offering; and (10) receipt of $5,700,000 and recorded receivable of $786,492 related to the liquidation of the Company's investment in PHZ Capital Partners L.P.

Among the significant developments during the year ended December 31, 2001 were: (1) payment of $5,709,884 in federal income taxes as a result of the Company's deemed dividend distribution; (2) decline in the value of the Company's holdings in Experion Systems, Inc. of $480,000; (3) decline in the value of the Company's holdings in Informio, Inc. of $353,221; (4) decline in the value of the Company's holdings in Questech

Corporation of $245,843; (5) writeoff of the value of the Company's holdings in Schwoo, Inc of $1,248,827; (6) sales of the Company's holdings in Nanophase Technologies Corporation, Genomica Corporation, SciQuest.com, Inc. Essential.com and MedLogic Global Corporation; and (7) payment of the 2000 realized gain profit-sharing awards of $2,320,938.

As of March 31, 2001, in accordance with newly promulgated SEC guidelines, the Company changed its 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" contained in Item 8. "Consolidated Financial Statements and Supplementary Data.")

The Company's shares outstanding as of December 31, 2002 were 11,498,845, versus 8,864,231 at December 31, 2001, pursuant to the issuance and exercise of transferable rights to its shareholders to subscribe to new shares of the Company's common stock. Investors subscribed to 2,634,614 new common shares resulting in net proceeds of $5,643,470.

The Company's financial condition is dependent on the success of its investments. The Company has invested a substantial portion of its assets in private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies developing unproven technologies that lack management depth and have little or no history of operations. At December 31, 2002, $12,036,077 or 33.5 percent of the Company's total assets (44.2 of the Company's net assets) consisted of non-publicly traded securities at fair value, of which net unrealized depreciation was $2,718,389. At December 31, 2001, $13,120,978 or 33.1 percent of the Company's total assets (53.9 percent of the Company's net assets) consisted of non-publicly traded securities at fair value, of which net unrealized appreciation was $1,215,444.

The value of the non-publicly traded securities decreased by $1,084,901 from $13,120,978 at December 31, 2001 to $12,036,077 at December 31, 2002, reflecting increases from new and additional investments offset by investment write-downs and the liquidation of investments. Increases from new and additional investments totaled $7,195,988 (see summary table on page 29). Write-downs were taken on the following investments: Continuum Photonics, Inc., $481,011; Experion Systems, Inc., $580,706; Kriton Medical, Inc., $1,000,001; NanoOpto Corporation, $596,600; NeoPhotonics Corporation, $569,560; and NeuroMetrix, Inc., $1,986,081. The liquidations of Informio, Inc. and the Company's interest in PHZ Capital Partners L.P. resulted in decreases in non-publicly traded securities of $2,921,002 and $151,380, respectively, which were their respective values at December 31, 2001.

The Company's investments in the telecommunications equipment industry, Continuum Photonics, Inc., NanoOpto Corporation and NeoPhotonics Corporation, were written-down by the Company by $1,647,171 during 2002. The valuation of such investments was reduced to 3.59 percent of the Company's net assets at December 31, 2002. Global economic conditions and difficulties among carrier companies, especially competitive local exchange carriers, have continued to take an unprecedented toll on the

telecommunications industry. The resulting impact on the optical components sector has been severe. Continuing declines in major system installations and capital expenditure budgets have continued to limit sales by component companies.

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

	December 31, 2002	December 31, 2001
Investments, at cost	$30,206,935	$37,714,285
Unrealized (depreciation) appreciation	(2,720,113)	1,216,420
Investments, at fair value	$27,486,822	$38,930,705

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The accumulated unrealized (depreciation) appreciation on investments net of deferred taxes is ($3,389,458) at December 31, 2002 versus ($148,049) at December 31, 2001.

Following an initial investment in a private company, the Company may make additional investments in such portfolio company in order to: (1) increase or maintain in whole or in part its ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; (3) preserve the Company's proportionate ownership in a subsequent financing; or (4) attempt to preserve or enhance the value of the Company's investment. There can be no assurance that the Company will make follow-on investments or have sufficient funds to make additional investments. The Company has the discretion to make follow-on investments as it determines, subject to the availability of capital resources. The failure to make such follow-on investments may, in certain circumstances, jeopardize the continued viability of the portfolio company and the Company's initial investment or may result in a missed opportunity for the Company to maintain or increase its participation in a successful operation. Even if the Company has sufficient capital to make a desired follow-on investment, it may elect not to make a follow-on investment because it does not want to increase its concentration of risk, because it prefers other opportunities, or because it is inhibited by compliance with BDC or RIC requirements, even though the follow-on investment opportunity appears attractive or would preserve rights pursuant to "pay to play" provisions.

The following table is a summary of the cash investments and loans made by the Company in its private placement portfolio during the year ended December 31, 2002:

New Investments:	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
NeoPhotonics Corporation	1,000,000
Optiva, Inc.	1,250,000
Additional Investments:	
Experion Systems, Inc.	517,706
NeuroMetrix, Inc.	353,282
Total	$7,195,988

Results of Operations

Investment Income and Expenses:

The Company had net operating (loss) income of ($1,871,088) in 2002, ($524,560) in 2001 and $3,310,250 in 2000. The net operating (loss) income for 2002, 2001 and 2000 reflected a decrease in the employee profit-sharing accrual that resulted in a reversal of 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.

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and provides little or no current yield in the form of dividends or interest. The Company does earn interest income from fixed-income securities, including U.S. Government and Agency Obligations. The amount of interest income earned varies with the average balance of the Company's fixed-income portfolio and the average yield on this portfolio.

The Company had total investment income of $253,461 in 2002 , $510,661 in 2001 and $687,050 in 2000. Total investment income is comprised primarily of interest from fixed-income securities, loans and debt securities of portfolio companies and other income.

The Company had interest income, primarily from fixed-income securities, of $184,050 in 2002, $422,196 in 2001 and $554,233 in 2000. The decrease in interest income from 2002 to 2001 of $238,146 or 56.4 percent reflects primarily the continual decline in interest rates during 2002.

The Company had interest income from portfolio companies of $0 in 2002, $9,616 in 2001 and $64,950 in 2000. The decrease from 2001 to 2002 of $9,616 or 100.0 percent and from 2000 to 2001 of $55,334 or 85.2 percent is owing to the reduction in the amount of outstanding loans during the periods. The amount of outstanding loans to portfolio companies varies. Typically, loans made to portfolio companies are bridge loans and are converted into equity at the next financing.

The Company had other income of $69,411 in 2002, $77,849 in 2001 and $65,867 in 2000. The other income primarily represents rental income for subleasing office space to an unaffiliated party.

Operating expenses were $2,124,549 in 2002, $1,035,221 in 2001 and ($2,623,200) in 2000. The operating expenses for the year ended December 31, 2002 reflect a reversal of a prior expense accrual in the employee profit-sharing plan of $163,049. Salaries and benefits increased by $85,289 or 8.2 percent primarily owing to an increase in the retirement medical benefit expense of $29,272, and the expense of a new employee, starting in September 2002.

Professional fees increased by $83,135 or 31.8 percent, primarily

as a result of expenses associated with new investments and preparation of the Company's proxy statement. Directors' fees and expenses increased $64,635 or 71.8 percent, as a result of special board meetings; audit committee meetings regarding the appointment of PricewaterhouseCoopers LLP as independent accountants for the Company for the year ending December 31, 2002; nominating committee meetings resulting in the appointment of three additional members of the Board of Directors; and additional expenses associated with the new members. Depreciation expense increased by $3,706 or 13.8 percent owing to an upgrading of the Company's computers and software.

The operating expenses for the year ended December 31, 2001 reflect a reversal of a prior expense accrual in the employee profit-sharing plan of $984,021 owing to decreases in unrealized appreciation of investments for the current year. Salaries and benefits increased by $8,326 or one percent. Administration and operations increased by $20,880 or 5.4 percent, and professional fees decreased by $49,019 or 15.8 percent in 2001. The remaining expenses are related to office and rent expenses and director compensation.

The Company has in the past relied, and continues to rely to a large extent, on proceeds from sales of investments, rather than on investment income, to defray a significant portion of its operating expenses. Because such sales are unpredictable, the Company attempts to maintain adequate working capital to provide for fiscal periods when there are no such sales.

Realized Gains and Losses on Sales of Portfolio Securities

During the three years ended December 31, 2002, 2001 and 2000, the Company sold various investments and received distributions, resulting in net realized income from investments of $3,284,737, $1,394,781 and $19,065,267, respectively.

During 2002, the Company recorded realized income from investments of $3,284,737, consisting primarily of realized income of $4,776,360 from the liquidation of its partnership interest in PHZ Capital Partners L.P. The Company also recorded realized income of $120,133 from the Nanophase Technologies Litigation Settlement Fund offset by realized losses of $350,583 and $1,248,825 from the liquidation of Informio, Inc. and sale of Schwoo, Inc., respectively. As a result of the income and losses realized during 2002, unrealized appreciation increased by $1,279,840.

During 2001, the Company recorded realized income from investments of $1,394,781, consisting primarily of realized income (losses) from sales of Nanophase Technologies Corporation, $2,762,696; Genomica Corporation, $1,022,905; 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). The Company also recorded realized income of $1,266,729 from its partnership interest in PHZ Capital Partners L.P. As a result of the income and losses realized during 2001, unrealized appreciation increased by $3,948,271.

During 2000, the Company recorded realized income from investments of $19,065,267, consisting primarily of realized income (losses) from sales of Alliance Pharmaceutical, $9,693,446; the Company's private-equity investments in SciQuest.com, Inc., $7,407,377; Kana Communications, $1,054,818; and Nanophase Technologies Corporation, $241,025. The Company also recorded income of $528,021 from its partnership interest in PHZ Capital Partners L.P. and $147,528 on the realization of the reserve relating to monies placed in escrow in connection with the sale of NBX Corporation to 3Com Corporation. (See Note 7 to Consolidated Financial Statements.) The Company received in full the escrowed funds on March 6, 2000. As a result of the income and losses realized during 2000, unrealized appreciation decreased by $21,400,036.

Unrealized Appreciation and Depreciation of Portfolio Securities

The Company's Investment and Valuation Committee values the portfolio securities on a quarterly basis pursuant to the Company's Asset Valuation guidelines established by the Board of

Directors in accordance with the 1940 Act. (See "Footnote to Consolidated Schedule of Investments" contained in Item 8. "Consolidated Financial Statements and Supplementary Data.")

In 2002, net unrealized depreciation on investments increased by $3,936,533 or 323.6 percent from $1,216,420 to ($2,720,113), primarily as a result in the declines in the valuations of the Company's holdings in Continuum Photonics, Inc., Experion Systems, Inc., Kriton Medical, Inc., NanoOpto Corporation, NeoPhotonics Corporation and NeuroMetrix of $481,011, $580,706, $1,000,001, $596,600, $569,560 and $1,986,081, respectively. This decrease was offset by an increase in unrealized appreciation of $353,221 and $1,248,827 as a result of the realization of the loss on the sale of the Company's positions in Informio, Inc. and Schwoo, Inc. In addition, unrealized appreciation decreased $322,208 as a result of the realization of income from the Company's investment in PHZ Capital Partners, L.P., which had been recorded as unrealized income.

In 2001, net unrealized appreciation on investments decreased by $7,731,508 or 86.4 percent from $8,947,928 to $1,216,420, primarily as a result of declines in the valuations of the Company's holdings of Nanophase, Genomica, Essential.com, Experion Systems, and Schwoo of $5,499,664, $1,540,375, $854,467, $480,000 and $1,248,827, respectively. This decrease was offset by an increase in unrealized appreciation of $1,528,082 and $1,033,775 as a result of the realization of the loss on the sale of the Company's positions in SciQuest.com and MedLogic.

In 2000, net unrealized appreciation on investments decreased by $37,934,593 or 80.9 percent from $46,882,521 to $8,947,928, primarily as a result of declines in the valuations of the Company's holdings in SciQuest.com, Kana Communications, and Questech Corporation of $26,102,456 (net of gain realized on sale), $3,816,204 (net of gain realized on sale) and $1,165,874, respectively, offset by increases in the values of the Company's holdings in Nanophase Technologies Corporation, Genomica Corporation

and Essential.com of $3,709,449, $1,330,949 and $854,467, respectively. (See "Consolidated Schedule of Investments" contained in Item 8. "Consolidated Financial Statements and Supplementary Data.")

Cash Flow

Cash flow provided by operating activities for the year ended December 31, 2002 was $1,923,048 primarily as a result of the following changes from December 31, 2001 to December 31, 2002: payable to broker for unsettled trade increased by $5,969,725, funds held in escrow increased by $750,000 and receivable from a partnership liquidation increased by $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 the decrease in the Company's investment in United States 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 the rights offering of $5,643,470.

Liquidity and Capital Resources

The Company's net primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. The Company's secondary sources of liquidity are restricted securities of companies that are publicly traded. At December 31, 2002, December 31, 2001 and December 31, 2000, the Company's net primary liquidity was $16,508,057, $13,459,654 and $23,039,736, respectively. On the corresponding dates, the Company's secondary liquidity was $0, $0 and $3,040,679. The Company's tertiary source of liquidity has been its holding in PHZ Capital Partners L.P., from which the Company received cash distributions in 2002, 2001 and 2000 of $6,588,661, $172,068 and $280,326, respectively. The Company liquidated its 20 percent interest in PHZ, effective December 31, 2002, for $5,700,000 on December 31, 2002 and a final distribution of $786,492 on January

16, 2003. The final distribution of $786,492 is included in net primary liquidity as a receivable at December 31, 2002.

The increase in the Company's primary source of liquidity from December 31, 2001 to December 31, 2002 is the net result of: (1) payment of federal income taxes of $307,585; (2) investment in Nanopharma Corp. of $700,000; (3) investment in NanoOpto Corporation of $625,000; (4) investment in NeoPhotonics Corporation of $1,000,000; (5) investment in Experion Systems, Inc. of $517,706; (6) investment in Continuum Photonics, Inc. of $1,000,000; (7) investment in Nanotechnologies, Inc. of $750,000; (8) investment in Optiva, Inc. of $1,250,000; (9) investment in Agile Materials & Technologies, Inc. of $1,000,000; (10) investment in NeuroMetrix, Inc. of $353,282; and (11) use of funds for operating expenses; offset by raising of $5,643,470 net of expenses from the rights offering.

From December 31, 2001 to December 31, 2002, restricted funds increased by $274,924 or 57.0 percent, owing to the Company's 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, the Company's liability for accrued profit sharing decreased by $163,049 to $15,233 to reflect the estimated amount to be paid out under the Plan. Current income tax liability increased by $602,588 to $857,656, owing primarily to income recorded in association with the liquidation of the Company's interest in PHZ Capital Partners L.P.

On November 19, 2001, the Company established an asset account line of credit of up to $12,700,000. The asset account line of credit is secured by the Company's government agency securities. Under the asset account line of credit, the Company may borrow up to 95 percent of the current value of its government agency securities. The Company's 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.

The Company's net primary sources of liquidity are more than adequate to cover the Company's gross cash operating expenses over the next 12 months. Such 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 the Company's financial condition and results of operations and require management's most difficult, complex or subjective judgments. The Company's critical accounting policies are those applicable to the valuation of investments.

Valuation of Portfolio Investments

As a business development company, the Company invests 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. The Company values substantially all of its investments at fair value as determined in good faith by the Company's Investment and Valuation Committee. The Investment and Valuation Committee, comprised of a least three or more independent Board members, reviews and approves the valuation of the Company's 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 the assets of the Company, external measures of value, such as public markets or third party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future. Where there

is an established public market for the class of the company's securities held by the Company, public market value will be used. The Company discounts market value for securities that are subject to significant legal and contractual restrictions.

Recent Developments -- Portfolio Companies

On January 16, 2003, the Company received $786,492 as final payment in the liquidation of the Company's investment in PHZ Capital Partners L.P.

On February 3, 2003, the Company announced that it 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.

Recent Developments -- Sub-Chapter M Status

The qualification of the Company as a RIC under Sub-Chapter M of the Code depends on it satisfying certain technical requirements regarding its income, investment portfolio and distributions. (See "Sub-Chapter M Status" contained in Item 1. "Business.")

Since 1998, the Company has received SEC certification for the Company's qualification for RIC treatment. Although the SEC certification for 1999-2001 was issued, there can be no assurance that the Company will receive such certification for 2002 or subsequent years (to the extent it needs additional certification as a result of changes in its portfolio) or that it will actually qualify as a RIC for subsequent years. In addition, under certain circumstances, even if the Company qualified for Sub-Chapter M treatment in a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

On January 22, 2002, the Company announced that its Board of Directors had declared a deemed dividend for 2001 of $0.0875 per share, for a total of $775,620, and paid corporate taxes on behalf of shareholders of $0.030625 per share, for a total of $271,467.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The Company's business activities are highly risky. The Company considers a principal type of market risk to be valuation risk. Investments are stated at "fair value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors. (See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments" contained in Item 8. "Consolidated Financial Statements and Supplementary Data.")

Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. The Company has exposure to public-market price fluctuations to the extent of its publicly traded portfolio.

The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies developing new technologies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. Even when the Company's private equity investments complete initial public offerings (IPOs), the Company is normally subject to lock-up agreements for a period of time.

Because there is typically no public market for the equity interests of the small companies in which the Company invests, the valuation of the equity interests in the Company's portfolio is subject to the estimate of the Company's Board of Directors in accordance with the Company's Asset Valuation Policy Guidelines. In the absence of a readily ascertainable market value, the estimated value of the Company's portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Any changes in valuation are recorded in the Company's consolidated statements of operations as "Net (decrease) increase in unrealized appreciation on investments."

Item 8. Consolidated Financial Statements and Supplementary Data

HARRIS & HARRIS GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The following reports and consolidated financial schedules of Harris & Harris Group, Inc. are filed herewith and included in response to Item 8.

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

REPORT OF INDEPENDENT ACCOUNTANTS

Report of Independent Accountants

To the Board of Directors and Shareholders of
Harris & Harris Group, Inc.

In our opinion, the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, and the related consolidated statements of operations, of cash flows, of changes in net assets and of financial highlights present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. (the "Company") at December 31, 2002, and the results of its operations, its cash flows, the changes in its net assets and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2002 by correspondence with the custodian, provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and 2000, and for the years then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 21, 2002.

As more fully disclosed in Note 2, the financial statements include investments valued at $12,036,077 (44.16% of net assets) at December 31, 2002, the fair values of which have been estimated by the Board of Directors in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

/s/ PricewaterhouseCoopers, LLP

March 18, 2003

New York, N.Y.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	December 31, 2002	December 31, 2001
Investments, at value (Cost: $30,206,935 at 12/31/02, $37,714,285 at 12/31/01)	$ 27,486,822	$ 38,930,705
Cash and cash equivalents	5,967,356	135,135
Restricted funds (Note 5)	756,944	482,020
Funds in escrow	750,000	0
Receivable from portfolio company	786,492	0
Interest receivable	189	82
Prepaid expenses	96,631	14,833
Note receivable ($987, net of reserve of $987 at 12/31/02)	0	10,487
Other assets	107,535	109,105
Total assets	35,951,969	$ 39,682,367

LIABILITIES & NET ASSETS

	December 31, 2002	December 31, 2001
Accounts payable and accrued liabilities	$ 1,451,568	$ 1,039,350
Payable to broker for unsettled trade	5,696,725	0
Bank loan payable (Note 8)	0	12,495,777
Accrued profit sharing (Note 3)	15,233	178,282
Deferred rent	5,397	14,650
Current income tax liability	857,656	255,068
Deferred income tax liability (Note 6)	669,344	1,364,470
Total liabilities	8,695,923	15,347,597
Commitments and contingencies (Note 7)		
Net assets	$ 27,256,046	$ 24,334,770
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$ 0	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized; 13,327,585 issued at 12/31/02 and 10,692,971 issued at 12/31/01	133,276	106,930
Additional paid in capital (Note 4)	32,845,872	27,228,748
Additional paid in capital - common stock warrants	109,641	109,641

Accumulated net realized gain (loss)	1,137,820	618,606
Accumulated unrealized appreciation of investments, net of deferred tax liability of $844,918 at 12/31/02 and $1,540,044 at 12/31/01	(3,565,032)	(323,624)
Treasury stock, at cost (1,828,740 shares at 12/31/02 and 12/31/01)	(3,405,531)	(3,405,531)
Net assets	$ 27,256,046	$ 24,334,770
Shares outstanding	11,498,845	8,864,231
Net asset value per outstanding share	$ 2.37	$ 2.75

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
Investment income:			
Interest from:			
Fixed-income securities	$ 184,050	$ 422,196	$ 554,233
Portfolio companies	0	9,616	64,950
Dividend income	0	1,000	2,000
Other income	69,411	77,849	65,867
Total investment income	253,461	510,661	687,050
Expenses:			
Profit-sharing (reversal) accrual (Note 3)	(163,049)	(984,021)	(4,812,675)
Salaries and benefits	1,130,352	1,045,063	1,036,737
Professional fees	344,717	261,582	310,601
Administration and operations	433,569	406,488	385,608
Rent	173,291	166,312	166,816
Directors' fees and expenses	154,682	90,047	100,469
Depreciation	30,607	26,901	28,748
Custodian fees	9,604	14,518	14,355
Interest expense (Note 4)	10,776	8,331	146,141
Total expenses	2,124,549	1,035,221	(2,623,200)
Operating (loss) income before income taxes	(1,871,088)	(524,560)	3,310,250
Income tax benefit (Note 6)	0	0	0
Net operating (loss) income	(1,871,088)	(524,560)	3,310,250
Net realized income (loss) from investments:			
Realized income from investments	3,284,737	1,394,781	19,065,267
Total realized income	3,284,737	1,394,781	19,065,267
Income tax expense (Note 6)	(894,435)	(118,415)	(101,435)
Net realized income from investments	2,390,302	1,276,366	18,963,832
Net realized income	519,214	751,806	22,274,082
Net decrease in unrealized appreciation on investments:			
Increase as a result of investment sales	1,602,048	4,802,738	0

Decrease as a result of investment sales.........	(322,208)	(854,467)	(21,400,036)
Increase on investments held.....................	285	3,232,919	26,741,283
Decrease on investments held.....................	(5,216,659)	(14,912,698)	(43,275,840)
Change in unrealized appreciation on investments.............	(3,936,534)	(7,731,508)	(37,934,593)
Income tax benefit (Note 6)................	695,126	90,464	153,304
Net decrease in unrealized appreciation on investments...........	(3,241,408)	(7,641,044)	(37,781,289)
Net decrease in net assets resulting from operations:			
Total.....................	$(2,722,194)	$ (6,889,238)	$(15,507,207)
Per outstanding share.....	$ (0.24)	$ (0.78)	$ (1.71)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
Cash flows used in operating activities:			
Net (decrease) increase in net assets resulting from operations..........	$ (2,722,194)	$ (6,889,238)	$(15,507,207)
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:			
Net realized and unrealized loss (income) on investments.	651,797	5,950,398	18,869,326
Deferred income taxes....	(695,126)	90,464	(153,304)
Depreciation.............	30,607	26,901	28,748
Other....................	0	2,010	109,641
Interest received in stock...................	0	0	(27,009)
Changes in assets and liabilities:			
Restricted funds.........	(274,924)	(216,837)	(265,183)
Receivable from investment company......	(786,492)	0	0
Funds in escrow..........	(750,000)	0	1,327,748
Interest receivable......	(107)	30,000	14,107
Prepaid expenses.........	(81,798)	67,782	(8,287)
Notes receivable.........	10,487	401	0
Other assets.............	1,570	23,667	18,384
Accounts payable and accrued liabilities.....	412,217	267,587	71,197
Payable to broker for unsettled trade.........	5,696,725	(115,005)	115,005
Accrued profit sharing...	(163,049)	(3,304,959)	(5,951,226)
Deferred rent............	(9,253)	(9,253)	(9,253)
Current income tax liability..............	602,588	(5,496,498)	62,670
Net cash provided by (used in) operating activities.............	1,923,048	(9,572,580)	(1,304,643)

Cash provided by investing

activities:			
Net (purchase) sale of short-term investments and marketable securities..............	10,358,006	(10,263,667)	(14,480,590)
Investment in private placements and loans....	(7,195,988)	(1,818,826)	(6,417,500)
Proceeds from sale of investments............	7,631,100	9,385,615	23,022,868
Purchase of fixed assets.	(41,138)	(6,508)	(6,974)
Net cash provided by (used in) investing activities.............	10,751,980	(2,703,386)	2,117,804
Cash flows used in financing activities:			
Payment of dividend......	0	0	(184,817)
Purchase of treasury stock (Note 4)..........	0	(338,000)	(530,051)
Proceeds from note payable.................	0	12,495,777	3,000,000
Payment of note payable (Note 4)...............	(12,495,777)	0	(3,000,000)
Proceeds from rights offering, net (Note 4)..	5,643,470	0	0
Collection on notes receivable.............	9,500	0	21,775
Net cash (used in) provided by financing activities.............	(6,842,807)	12,157,777	(693,093)
Net increase (decrease) in cash and cash equivalents:			
Cash and cash equivalents at beginning of the year...	135,135	253,324	133,256
Cash and cash equivalents at end of the year................	5,967,356	135,135	253,324
Net increase (decrease) in cash and cash equivalents............	$ 5,832,221	$ (118,189)	$ 120,068
Supplemental disclosures of cash flow information:			
Income taxes paid........	$ 307,585	$ 5,795,916	$ 117,134
Interest paid............	$ 19,106	$ 0	$ 36,500

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
Changes in net assets from operations:			
Net operating (loss) income..	$(1,871,088)	$ (524,560)	$ 3,310,250
Net realized income on investments.................	2,390,302	1,276,366	18,963,832
Net increase (decrease) in unrealized appreciation on investmentsas a result of sales.......................	1,279,840	4,038,735	(21,246,732)
Net decrease in unrealized appreciation on investments held......................	(4,521,248)	(11,679,779)	(16,534,557)
Net decrease in net assets resulting from operations...	(2,722,194)	(6,889,238)	(15,507,207)
Changes in net assets from capital stock transactions:			
Payment of dividend..........	0	0	(184,817)

Purchase of treasury stock...	0	(338,000)	(530,051)
Proceeds from sale of stock..	26,346	0	0
Additional paid in capital on common stock issued......	5,617,124	0	0
Deemed dividend shareholder tax credit..................	0	(271,467)	(5,688,896)
Additional paid in capital warrants....................	0	0	109,641
Net increase (decrease) in net assets resulting from capital stock transactions..	5,643,470	(609,467)	(6,294,123)
Net increase (decrease) in net assets...............	2,921,276	(7,498,705)	(21,801,330)
Net Assets:			
Beginning of the year........	24,334,770	31,833,475	53,634,805
End of the year..............	$27,256,046	$ 24,334,770	$ 31,833,475

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002
(Audited)

	Method of Valuation (3)	Shares/ Principal	Value
Investments in Unaffiliated Companies (8)(9)(10) -- 10.0% of total investments			
Private Placement Portfolio (Illiquid) -- 10.0% of total investments			
AlphaSimplex Group, LLC (2) -- Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT			
Limited Liability Company interest......	(D)	--	$ 6,235
Continuum Photonics, Inc. (1)(2)(4)(6) -- Develops optical networking components by merging cutting-edge materials, MEMS and electronics technologies -- 3.73% of fully diluted equity			
Series B Convertible Preferred Stock....	(D)	2,000,000	518,989
Exponential Business Development Company (1)(2)(5) -- Venture capital partnership focused on early stage companies			
Limited partnership interest............	(A)	--	25,000
Kriton Medical, Inc. (1)(2)(6) -- Develops ventricular assist devices -- 1.73% of fully diluted equity			
Series B Convertible Preferred Stock....	(D)	476,191	0
NanoOpto Corporation (1)(2)(4)(6) -- Develops high performance, integrated optical communications sub-components on a chip by utilizing patented nano-manufacturing technology -- 1.45% of fully diluted equity			
Series A-1 Convertible Preferred Stock..	(D)	267,857	28,400
Nantero, Inc. (1)(2)(5)(6) -- Develops a high density nonvolatile random access memory chip using nanotechnology -- 4.15% of fully diluted equity			
Series A Convertible Preferred Stock....	(A)	345,070	489,999
NeoPhotonics Corporation (1)(2)(4)(6) -- Develops and manufactures planar optical devices and components using nanomaterials deposition technology -- 1.76% of fully diluted equity			

Series D Convertible Preferred Stock	(D)	1,498,802	430,440
Optiva, Inc. (1)(2)(4)(5)(6) -- Develops and commercializes nanomaterials for advanced applications -- 1.99% of fully diluted equity			
Series C Convertible Preferred Stock	(B)	1,249,999	1,250,000
Total Private Placement Portfolio (cost: $5,395,166)			$2,749,063
Total Investments in Unaffiliated Companies (cost: $5,395,166)			$2,749,063

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002
(Audited)

	Method of Valuation (3)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (8)(9)(11) -- 33.8% of total investments			
Private Placement Portfolio (Illiquid) -- 33.8% of total investments			
Agile Materials & Technologies, Inc. (1)(2)(4)(5)(6) -- Develops and sells variable integrated passive electronic equipment components-- 8.21% of fully diluted equity			
Series A Convertible Preferred Stock	(A)	3,732,736	$ 1,000,000
Experion Systems, Inc. (1)(2)(7) -- Develops and sells software to credit unions -- 12.45% of fully diluted equity			
Series A Convertible Preferred Stock	(B)	294,118	
Series B Convertible Preferred Stock	(B)	35,294	
Series C Convertible Preferred Stock	(B)	222,184	$ 1,037,000
Nanopharma Corp. (1)(2)(4)(5)(6) -- Develops advanced nanoscopic drug delivery vehicles and systems -- 14.69% of fully diluted equity			
Series A Convertible Preferred Stock	(A)	684,516	700,000
Nanotechnologies, Inc. (1)(2)(4)(5)(6) -- Develops high-performance nanoscale materials for industry -- 6.48% of fully diluted equity			
Series B Convertible Preferred Stock	(A)	1,538,837	750,000
NeuroMetrix, Inc. (1)(2) -- Develops and sells medical devices for monitoring neuromuscular disorders -- 12.10% of fully diluted equity			
Series A Convertible Preferred Stock	(B)	875,000	
Series B Convertible Preferred Stock	(B)	625,000	
Series C-2 Convertible Preferred Stock	(B)	1,148,100	
Series E Convertible Preferred Stock	(B)	499,996	
Series E-1 Convertible Preferred Stock	(B)	235,521	5,075,426
Questech Corporation (1)(2)(5) -- Manufactures and markets proprietary metal decorative tiles -- 6.68% of fully diluted equity			
Common Stock	(B)	646,954	
Warrants at $5.00 expiring 11/15/04	(B)	1,966	
Warrants at $1.50 expiring 11/16/05	(B)	1,250	
Warrants at $1.50 expiring 12/14/06	(B)	8,500	
Warrants at $1.50 expiring 11/21/07	(B)	3,750	724,588
Total Private Placement Portfolio (cost: $9,359,300)			$ 9,287,014
Total Investments in Non-Controlled Affiliated Companies (cost: $9,359,300)			$ 9,287,014

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002
(Audited)

	Method of Valuation (3)	Shares/ Principal	Value
U.S. Government and Agency Obligations -- 56.2% of total investments			
U.S. Treasury Bills -- due date 01/16/03	(K)	$4,045,000	$ 1,044,488
U.S. Treasury Bills -- due date 01/23/03	(K)	9,470,000	9,463,237
U.S. Treasury Bills -- due date 02/13/03	(K)	4,950,000	4,943,020
Total Investments in U.S. Government (cost: $15,452,469)			$15,450,745
Total Investments -- 100% (cost: $30,206,935)			$27,486,822

The accompanying notes are an integral part of
this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002
(Audited)

Notes to Consolidated Schedule of Investments

(1) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(2) Legal restrictions on sale of investment.

(3) See Footnote to Schedule of Investments for a description of the Asset Valuation Policy Guidelines.

(4) Initial investment was made during 2002.

(5) No changes in valuation occurred in these investments during the 12 months ended December 31, 2002.

(6) These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations or it has commenced such operations but has not realized significant revenue from them.

(7) Previously named MyPersonalAdvocate.com, Inc.

(8) Investments in unaffiliated companies consist of investments in which the Company owns less than five percent of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which the Company owns more than five percent but less than 25 percent of the portfolio company. Investments in controlled affiliated companies consist of investments in which the Company owns more than 25 percent of the portfolio company.

(9) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The calculated percentage represents the amount of the issuer's equity securities the Company owns or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.

(10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $5,395,166. The gross unrealized appreciation based on the tax cost for these securities is $1,069. The gross unrealized depreciation based on the tax cost for these securities is $2,647,172.

(11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $9,359,300. The gross unrealized appreciation based on the tax cost for these securities is $2,414,044. The gross unrealized depreciation based on the tax cost for these securities is $2,486,330.

The accompanying notes are an integral part of this consolidated schedule.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

1) EQUITY-RELATED SECURITIES

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

3) LONG-TERM FIXED-INCOME SECURITIES

4) SHORT-TERM FIXED-INCOME INVESTMENTS

5) ALL OTHER INVESTMENTS

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

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

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

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

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

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

EQUITY-RELATED SECURITIES

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

A. Cost: The cost method is based on the original cost to the Company. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some

examples of such events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's common stock; and (5) significant positive or negative changes in the company's business.

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

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by the Company. The Company discounts market value for securities that are subject to significant legal 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.

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

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

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

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

F. Private Market: The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

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

LONG-TERM FIXED-INCOME SECURITIES

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

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

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

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

SHORT-TERM FIXED-INCOME INVESTMENTS

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

ALL OTHER INVESTMENTS

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

The reported values of securities for which market quotations are not readily available and for other assets reflect the Investment and Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if the securities had to be sold in an immediate liquidation. Thus valuations as of any particular date are not necessarily indicative of amounts that may ultimately be realized as a result of future sales or other dispositions of investments held.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

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

The Company elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992 until the election of BDC status, the Company operated as a closed-end, non-diversified, investment company under the 1940 Act. Upon commencement of operations as an investment company, the Company revalued all of its assets and liabilities at fair value as defined in the 1940 Act. Prior to such time, the Company was registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100 percent wholly owned subsidiary of the Company. Enterprises holds the lease for the office space, which it subleases to the Company and an unaffiliated party; operates a financial relations and consulting firm; is a partner in Harris Partners I, L.P. and is taxed as a C corporation. Harris Partners I, L.P. is a limited partnership and owned, until December 31, 2002, a 20 percent limited partnership interest in PHZ Capital Partners L.P. The partners of Harris Partners I, L.P. are Enterprises (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

The Company filed for 1999 to elect treatment as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for 2000 and 2001. There can be no assurance that the Company will qualify as a RIC for 2002 and subsequent years or that if it does qualify, it will continue to qualify for subsequent years. In addition, even if the Company were to qualify as a RIC for a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, the Company must, among other factors, distribute at least 90 percent of its investment company taxable income and may either distribute or retain its realized net capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

Income Taxes. Prior to January 1, 1999, the Company recorded income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities had been established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes, the most significant difference of which relates to the Company's unrealized appreciation on investments.

The December 31, 2002 consolidated financial statements include a provision for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by the Company through December 31, 1998.

The Company pays federal, state and local income taxes on behalf of its wholly owned subsidiary, Harris & Harris Enterprises, which is a C corporation. (See "Note 6 Income Taxes.")

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2002 and 2001, and the reported amounts of revenues and expenses for the three years ended December 31, 2002. The most significant estimate relates to the fair valuations of investments for the years ended December 31, 2002 and 2001. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

On August 3, 1989, the shareholders of the Company approved the 1988 Long Term Incentive Compensation Plan (the "1988 Plan"). The Company's 1988 Plan was cancelled as of December 31, 1997, canceling all outstanding stock options and eliminating all potential stock option grants. As a substitution for the 1988 Plan, the Company adopted an employee profit-sharing plan.

As of January 1, 1998, the Company implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "1998 Plan") that provided for profit sharing equal to 20 percent of the net realized income of the Company as reflected on the Consolidated Statements of Operations for such year, less the nonqualifying gain, if any. The 1998 Plan was terminated by the Company 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, the Company paid out 90 percent of the profit sharing in the amount of $1,024,696 on the 1999 realized gains; the remaining 10 percent or $113,855 was paid out in September 2000, upon the completion and filing of the Company's 1999 federal tax return.

As of January 1, 2000, the Company implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "Plan") that provides for profit sharing by its officers and employees equal to 20 percent of the net realized income of the Company as reflected on the consolidated statements of operations of the Company for such year, less the nonqualifying gain, if any.

On April 26, 2000 the shareholders of the Company approved the performance goals under the Plan in accordance with Section 162(m) of the Internal Revenue Code of 1986 ("Code"), effective as of January 1, 2000. The Code generally provides that a public company such as the Company 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 any such officer/employee exceeds $1 million in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by the Company's shareholders.

Under the Plan, net realized income of the Company includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by the Company), but is calculated without regard to dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years ("Qualifying Income"). 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 Committee will determine whether, and if so how much, Qualifying Income exists for a plan year, and 90 percent of the Qualifying Income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10 percent will be paid out after the Company has filed its federal tax return for that year in which Qualifying Income exists. At December 31, 2002, the distribution amounts for each officer and employee were as follows: Charles E. Harris, 13.790 percent; Mel P. Melsheimer, 4.233 percent; Helene B. Shavin, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent. In one case, for a former employee, who left the Company other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to such participant.

On October 15, 2002 the shareholders of the Company approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Internal Revenue Code of 1986 ("Code"), effective as of January 1, 2003. The Code generally provides that a public company such as the Company 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 any such officer/employee exceeds $1 million in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by the Company's shareholders.

As of January 1, 2003, the Company implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "2002" Plan").

Under the 2002 Plan, net realized income of the Company includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by the Company), but is calculated without regard to dividends paid or loss carry-overs from other years ("Qualifying Income").

Under the 2002 Plan, awards previously granted to the Plan's four current Participants (Messrs. Harris and Melsheimer and Mss. 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 such awards are reduced will be allocable and reallocable each year by the Compensation Committee ("Committee") among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by the Company whether or not the grandfathered participant is still employed by the Company 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 the Company at the end of a plan year in order to participate in profit sharing on such investments with respect to such 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 the Company remains a "business development company" within the meaning of 1940 Act be greater than 20 percent of the Company's "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 such amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be modified further. Nothing in the 2002 Plan will preclude the 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 percent; Mel P. Melsheimer, 4.233 percent; Douglas W. Jamison, 3.0 percent; Helene B. Shavin, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent.

The grandfathered participations are set forth below:

	Grandfathered Participations	
Officer/Employee	Non-Tiny Technology (%)	Tiny Technology (%)
Charles E. Harris	12.41100	10.34250
Mel P. Melsheimer	3.80970	3.17475
Helene B. Shavin	1.37160	1.14300
Jacqueline M. Matthews	.40770	.33975
Total	18.00000	15.00000

Accordingly, an additional 2.00% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5.00% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20.00% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently Douglas W. Jamison is allocated .80% of the Non-Tiny Technology Grandfathered Participations and 2.00 % of the Tiny Technology Grandfathered Participations.

During 2002, the Company 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. The Company will pay out 90 percent in March 2003 and the remaining 10 percent upon the completion and filing of the Company's 2002 federal tax return.

NOTE 4. CAPITAL TRANSACTIONS

In 1998, the Board of Directors approved that, effective January 1, 1998, 50 percent of all Directors' fees be used to purchase Company common stock from the Company. However, effective March 1, 1999, the directors may purchase the Company's common stock in the open market, rather than from the Company. During 1999, the Directors bought directly from the Company 5,816 shares.

On July 14, 1999, the Board of Directors announced a tender offer to purchase up to 1,100,000 shares of its common stock for cash at a price equal to $1.63 per share. A total of 1,080,569 shares were tendered for a total cost, including related expenses of approximately $71,500, of $1,832,831. Of these shares, 1,075,269 were tendered by one shareholder, which tendered all of its holdings.

On January 27, 2000, the Company placed privately, with an unaffiliated investor, for $3 million in cash, a one-year, 12 percent note with one-year warrants to purchase 25,263 shares of the Company's common stock at $11.8750 per share. Unless the note was prepaid, six months after its issuance, the investor would have received additional one-year warrants to purchase an additional $300,000 worth of the Company's common stock at the then-current market price. During March 2000, with part of the proceeds from the sale of SciQuest.com stock, the Company prepaid the Note. The Company incurred total interest costs of $146,141: $36,500 in interest paid on the note and $109,641 on warrants. The warrants expired unexercised.

On July 8, 2002, the Company filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for the issuance of transferable rights to its shareholders. The rights allowed the shareholders to subscribe for a maximum of 2,954,743 new shares of the Company's common stock, of which 2,634,614 new shares were subscribed for pursuant to the rights offering. The actual amount of gross proceeds raised upon completion of the offer was $5,927,882; net proceeds were $5,643,470, after expenses of $284,412. The Company intends to invest, under normal circumstances, directly or indirectly, the net proceeds of the offer in accordance with its investment objectives and policies, within the 12 months following the receipt of such proceeds, depending on the available investment opportunities for the types of investments in which the Company principally invests.

Since 1998, the Company has repurchased a total of 1,859,047 of its shares for a total of $3,496,388, including commissions and expenses, at an average price of $1.88 per share. These treasury shares were reduced by the purchases made by the Directors. On July 23, 2002, because of the Company's strategic decision to invest in tiny technology, the Board of Directors reaffirmed its commitment not be authorize the purchase of additional shares of stock in the foreseeable future.

On December 14, 2000, the Company declared a deemed dividend of $1.78 per share for a total of $16,253,987, and in 2001, the Company paid federal income taxes on behalf of shareholders of $0.62 per share for a total of $5,688,896. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

On January 22, 2002, the Company announced a deemed dividend of $0.0875 per share for a total of $775,620, and in 2002 the Company paid federal income taxes on behalf of shareholders of $0.030625 per share for a total of $271,467. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

The net of the total deemed dividends declared in 2000 ($16,253,987) and 2001 ($775,620) and the taxes paid on behalf of shareholders in 2000 ($5,688,896) and 2001 ($271,467) is considered to be reinvested by the shareholders; therefore, during 2000 and 2001, additional paid in capital has increased by $10,565,091 and $504,153, respectively.

The tax character of the 2000 and 2001 deemed dividends was long-term capital gain.

As of December 31, 2002, there are no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is attributed to Built-In Gains generated at the time of the Company's qualification as a RIC (see Note 6. "Income Taxes") and after tax earnings that are not required to be distributed.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with the Company (disclosed in a Form 8-K filed on October 27, 1999) (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement shall terminate on December 31, 2004 ("Term") subject to either an earlier termination or an extension in accordance with the terms; on January 1, 2000 and on each day thereafter, the Term extends automatically by one day unless at any time the Company or Mr. Harris, by written notice, decides not to extend the Term, in which case the Term will expire five years from the date of the written notice.

During the period of employment, Mr. Harris shall serve as the Chairman and Chief Executive Officer of the Company; be responsible for the general management of the affairs of the Company and all its subsidiaries, reporting directly to the Board of Directors of the Company; serve as a member of the Board for the period of which he is and shall from time to time be elected or reelected; and serve, if elected, as President of the Company and as an officer and director of any subsidiary or affiliate of the Company.

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $208,315 for 2000, with automatic yearly adjustments to reflect inflation. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in the Company's Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, the Company is to furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a $5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of $2,000,000; provides reimbursement for uninsured medical expenses, not to exceed $10,000 per annum, adjusted for inflation, over the period of the contract; provides Mr. Harris and his spouse with long-term care insurance; and disability insurance in the amount of 100 percent of his base salary. These benefits are for the term of the Employment Agreement.

The Employment Agreement provides for the Company to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, the Company will cause an amount equal to one-twelfth of Mr. Harris's current annual salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on the books of the Company for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris' benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. The Company will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by the Company under the SERP. The restricted funds for the SERP Plan total $756,944 as of December 31, 2002. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of the Company.

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with the Company, effective August 15, 1990. The severance compensation agreement provides that if, following a change in control of the Company, as defined in the agreement, such individual's employment is terminated by the Company without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris' termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. As of January 1, 1999, the Company adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow the Company to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act of 2001 which has increased the deduction limits for plans such as the 401(k) Plan. This Act eliminates the need for the Company to maintain two separate plans. Effective December 31, 2001, the Pension Plan merged into the 401(k) Plan, with the 401(k) Plan being the surviving plan. Contributions to the plan are at the discretion of the Company. During 2002, contributions to the plan that have been charged to salaries and benefits totaled approximately $51,500.

On June 30, 1994, the Company adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 2002 the Company had a reserve of $446,302 for the plan.

NOTE 6. INCOME TAXES

The Company elected Sub-Chapter M status for the year ended December 31, 1999. On February 23, 1999, the Company declared a cash dividend of $0.35 per share (for a total of $3,647,017), thereby distributing part of the long-term capital gain generated in 1999 by the sale of NBX Corporation to 3Com Corporation. Approximately $143,261 of the long-term capital gain for 1999 was not distributed during 1999. Accordingly, on September 20, 2000, the Company declared a $0.02 dividend (for a total of $184,817). For the year ended December 31, 1999, the Company incurred approximately $20,000 in excise taxes.

Provided that a proper election is made, a corporation taxable under Sub-Chapter C of the Internal Revenue Code (a "C Corporation") that elects to qualify as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its qualification as a RIC (the "Inclusion Period") from sales of assets that were held by the corporation on the effective date of the RIC election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). (If the corporation fails to make a proper election, it is taxable on its Built-In Gain as of the effective date of its RIC election.) The Company had Built-In Gains at the time of its qualification as a RIC and made the election to be taxed on any Built-In Gain realized during the Inclusion Period. Prior to 1999, the Company incurred ordinary and capital losses from its operations. After the Company's election of RIC status, those losses remained available to be carried forward to subsequent taxable years. The Company has previously used loss carryforwards to offset Built-In Gains. As of January 1, 2003, the Company had $501,640 of loss carryforwards remaining and $4,663,457 of unrealized Built-In Gains.

Continued qualification as a RIC requires the Company to satisfy certain investment asset diversification requirements in future years. The Company's ability to satisfy those requirements may not be controllable by the Company. (See "Sub-Chapter M Status" contained in Item 1. "Business.") There can be no assurance that the Company will qualify as a RIC in subsequent years.

To the extent that the Company retains capital gains, and declares a deemed dividend to shareholders, the dividend is taxable to the shareholders. The Company would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. The Company took advantage of this rule for 2000 and 2001. The Company's financial statements for 2000 and 2001 include a tax liability of $5,709,884 and $290,748, respectively. The taxes paid by the Company's shareholders as a result of its deemed dividend declaration for 2000 ($5,688,896) and 2001 ($271,467) are reflected as a deduction to the additional paid-in capital in the Company's Consolidated Statement of Assets and Liabilities rather than an expense in the Consolidated Statement of Operations.

The Company also realized short-term capital gains of approximately $2,111,865 in 2000, primarily on sales of shares of Alliance Pharmaceutical Corp. The Company offset the realized short-term gain with 2000 expenses and neither owed federal income taxes on the gain nor was required to distribute any portion of this gain to shareholders.

In 2002, the Company realized long-term capital losses of $470,622 primarily from long-term capital gains of $1,008,653 from the Company's liquidation of its partnership interest in PHZ Capital Partners L.P. offset by losses on the sale of Schwoo, Inc. of $1,248,825 and on the liquidation of Informio, Inc. of $350,583. The Company also realized short-term capital gains of $732,936 primarily from the liquidation of its partnership interest in PHZ Capital Partners L.P. Realized short-term capital gains were reduced by realized long-term capital losses resulting in net realized short-term capital gains. The Company offset the net realized short-term gains with 2002 expenses and neither owed federal income taxes on the gain nor was required to distribute any portion of this gain to shareholders.

For the years ended December 31, 2002, 2001 and 2000, the Company's income tax (benefit) expense was allocated as follows:

	2002	2001	2000
Investment operations	$ 0	$ 0	$ 0
Realized income on investments	894,435	118,415	101,435
Decrease in unrealized appreciation on investments	(695,126)	(90,464)	(153,304)
Total income tax (benefit) expense	$ 199,309	$ 27,951	$ (51,869)

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

	2002	2001	2000
Current	$ 894,435	$ 118,415	$ 101,435
Deferred -- Federal	(695,126)	(90,464)	(153,304)
Total income tax (benefit) expense	$ 199,309	$ 27,951	$ (51,869)

The Company's net deferred tax liability at December 31, 2002 and 2001 consists of the following:

	2002	2001
Unrealized appreciation on investments	$ 844,918	$1,540,044
Net operating and capital loss carryforward	(175,574)	(175,574)
Net deferred income tax liability	$ 669,344	$1,364,470

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. During 1999, the Company sublet this additional space to an unaffiliated party. Rent expense under this lease for the year ended December 31, 2002 was $178,561. Future minimum lease payments in 2003 are $101,946.

The Company had $750,000 of funds in escrow as of December 31, 2002, in anticipation of closing an investment in NanoGram Devices Corporation. On February 3, 2003, the Company announced that it had invested in a convertible preferred security of Nanogram Devices Corporation.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

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

NOTE 9. SUBSEQUENT EVENTS

On January 16, 2003, the Company received $786,492 as final payment in the liquidation of the Company's investment in PHZ Capital Partners L.P.

On February 3, 2003, the Company announced that it 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 March 20, 2003, in order to begin planning for eventual management succession, the Board of Directors voted to establish a mandatory retirement plan for individuals who are employed by the Company in a bona fide executive or high policy making position. There are currently two such individuals, the Chairman and CEO, and the President and COO. Under this plan, mandatory retirement will take place effective December 31 of the year in which the eligible individuals attain the age of 65. On an annual basis beginning in the year in which the designated individual attains the age of 65, a committee of the Board consisting of non-interested directors may determine to postpone the mandatory retirement date for that individual for one additional year for the benefit of the Company.

Pursuant to applicable age discrimination laws, the Company is required to establish a pension benefit plan (the "Plan") for such individuals. The Company's Chairman and CEO has offered, for the benefit of the Company in connection with its establishment of the Plan, to waive certain of his existing benefit rights, which is expected to relieve the Company from having to provide for Plan expense for him. Plan expense to cover the President and COO's anticipated benefit under the Plan will total approximately a currently estimated $450,000, which will be unfunded and will be amortized over the fiscal periods through the year ended December 31, 2004.

<TABLE>
<CAPTION>

FINANCIAL HIGHLIGHTS

Per share operating performance:

<S>	<C> Year Ended December 31, 2002	<C> Year Ended December 31, 2001	<C> Year Ended December 31, 2000	<C> Year Ended December 31, 1999	<C> Year Ended December 31, 1998
Net asset value, beginning of period	$ 2.75	$ 3.51	$ 5.80	$ 2.13	$ 3.15
Net operating income (loss)	(0.19)	(0.06)	0.37	(1.04)	(0.26)
Net realized gain (loss) on investments	0.24	0.14	2.09	0.93	(0.16)
Net (decrease) increase in unrealized appreciation as a result of sales	0.13	0.45	(2.35)	(0.46)	0.11
Net decrease (increase) in unrealized appreciation on investments held	(0.46)	(1.30)	(1.82)	4.58	0.05
Net decrease as a result of cash dividend	0.00	0.00	(0.02)	(0.35)	(0.75)
Net decrease as a result of deemed dividend	0.00	(0.03)	(0.62)	0.00	0.00
Net increase (decrease) from capital stock transactions	(0.10)	0.04	0.06	0.01	(0.01)
Net asset value, end of period*	$ 2.37	$ 2.75	$ 3.51	$ 5.80	$ 2.13
Cash dividends paid per share	$ 0.00	$ 0.00	$ 0.02	$ 0.35	$ 0.75
Deemed dividend per share	$ 0.00	$ 0.0875	$ 1.78	$ 0.00	$ 0.00
Market value per share, end of period	$ 2.46	$ 1.90	$ 2.4375	$ 11.50	$ 1.50

Total income tax liability per share	$ 0.15	$ 0.18	$ 0.78	$ 0.16	$ 0.09
Ratio of expenses to average net assets	8.3%	3.45%	(6.21)%	34.08%	10.9%
Ratio of net operating gain (loss) to average net assets	(7.3)%	(1.75)%	52.7%	(3.50)%	(10.4)%
Investment return based on:					
Stock price	40.5%	(22.1)%	(78.8)%	666.7%	(45.5)%
Net asset value	(13.8)%	(21.7)%	(39.5)%	188.7%	(8.3)%
Portfolio turnover	46.00%	9.00%	20.56%	53.54%	19.71%
Net assets, end of period	$27,256,046	$24,334,770	$ 31,833,475	$ 53,634,805	$22,556,709
Number of shares outstanding	11,498,845	8,864,231	9,064,231	9,240,831	10,591,232

</TABLE>

*Reflects the decline in net asset value as a result of the $0.02 dividend paid in 2000.

The accompanying notes are an integral part of this schedule.

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

On February 26, 2002, the Company appointed the accounting firm of PricewaterhouseCoopers LLP as independent accountants for the Company for the fiscal year ending December 31, 2002. Arthur Andersen LLP was dismissed effective upon completion of the December 31, 2001 audit. The decision to change accountants was approved by the Company's Audit Committee and was subject to ratification by its stockholders.

In connection with its audits for the 2001 and 2000 fiscal years, (1) there were no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, auditing scope or procedure, whereby such disagreements, if not resolved to the satisfaction of Arthur Andersen, would have caused them to make reference thereto in their report on the financial statements for such years; and (2) there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

The reports of Arthur Andersen on the financial statements of the Company for 2001 and 2000 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

The Company did not consult with PricewaterhouseCoopers LLP in 2001, 2000 or the interim period from January 1, 2002 to February 26, 2002 on either the application of accounting principles to a specified transaction either completed or proposed or the type of audit opinion PricewaterhouseCoopers LLP might issue on the Company's financial statements.

The Company requested that Arthur Andersen furnish a letter addressed to the Securities and Exchange Commission stating whether or not Arthur Andersen agreed with the above statements. A copy of such letter to the SEC, dated March 1, 2002, was filed as Exhibit 16.1 to the Form 8-K filed with the SEC on March 1, 2002.

PART III

Item 10. Directors and Executive Officers of the Company

The information set forth under the captions "Election of Directors" on page 3, "Executive Officers" on page 12 and "Section 16(a) Beneficial Ownership Reporting Compliance" on page 20 in the Company's Proxy Statement for Annual Meeting of Shareholders to be held May 5, 2003, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 on or about March 25, 2003 (the "2003 Proxy Statement") is herein incorporated by reference.

Item 11. Executive Compensation

The information set forth under the captions "Summary Compensation Table" on page 13 and "Compensation of Directors" on page 19 in the 2003 Proxy Statement is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption "Security Ownership of Certain Beneficial Owners" on pages 10 and 11 in the 2003 Proxy Statement is herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions

There were no relationships or transactions within the meaning of this item during the year ended December 31, 2002.

Item 14. Controls and Procedures

(a) Within the 90-day period prior to the filing date of this annual report, the Company's chief executive officer and chief financial officer conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934). Based upon this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them of any material information relating to the Company that is required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934.

(b) There have not been any significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. Exhibits, Consolidated Financial Statements, Schedules and Reports on Form 8-K

(a) The following documents are filed as a part of this report:

(1) Listed below are the financial statements which are filed as part of this report:

- Consolidated Statements of Assets and Liabilities as of December 31, 2002 and 2001;
- 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 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; and
- Selected Per Share Data and Ratios for the years ended December 31, 2002, 2001, 2000, 1999 and 1998.

(2) No financial statement schedules are required to be filed

herewith because (i) such schedules are not required or (ii) the information has been presented in the above financial statements.

(3) The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

3.1(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.

3.1(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.

4.1 Specimen certificate of common stock certificate, incorporated by reference to Exhibit 4 to Company's Registration Statement on Form N-2 filed October 29, 1992.

9.1 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.

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

10.2 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.

10.3 Employment Agreement Between Harris & Harris Group, Inc. and Charles E. Harris, dated October 19, 1999, incorporated by reference as Exhibit (C) to the Company's Form 8-K filed on October 27, 1999.

10.4 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.

10.5 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.

10.6 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.

10.7 Harris & Harris Group, Inc. Directors Stock Purchase Plan 2001.

10.8 Harris & Harris Group, Inc. Executive Mandatory Retirement Plan.

10.9 Amendment No. 1 to Deferred Compensation Agreement.

11.0* Computation of Per Share Earnings is set forth under Item 8.

99.1* Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K. None

*Exhibits attached.

SIGNATURES

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

HARRIS & HARRIS GROUP, INC.

Date: March 24, 2003

By:/s/ Charles E. Harris
Charles E. Harris
Chairman of the Board

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

Signatures	Title	Date
/s/ Charles E. Harris Charles E. Harris	Chairman of the Board and Chief Executive Officer	March 18, 2003
/s/ Mel P. Melsheimer Mel P. Melsheimer	President, Chief Operating Officer, Chief Financial Officer, Treasurer and Chief Compliance Officer	March 18, 2003
/s/ Helene B. Shavin Helene B. Shavin	Vice President and Controller	March 18, 2003
/s/ Phillip A. Bauman Phillip A. Bauman	Director	March 13, 2003

Signatures	Title	Date
/s/ G. Morgan Browne G. Morgan Browne	Director	March 14, 2003
/s/ Dugald A. Fletcher Dugald A. Fletcher	Director	March 13, 2003
/s/Kelly S. Kirkpatrick Kelly S. Kirkpatrick	Director	March 18, 2003
/s/ Glenn E. Mayer Glenn E. Mayer	Director	March 14, 2003
/s/ Lori D. Pressman Lori D. Pressman	Director	March 21, 2003
/s/ Charles E. Ramsey Charles E. Ramsey	Director	March 19, 2003
/s/ James E. Roberts James E. Roberts	Director	March 18, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Charles E. Harris, Chief Executive Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Harris & Harris Group, Inc.:

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Charles E. Harris

Charles E. Harris,
Chief Executive Officer

Date: March 24, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Mel P. Melsheimer, Chief Financial Officer of the Company, certify that:

7. I have reviewed this annual report on Form 10-K of Harris & Harris Group, Inc.:

8. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light

of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

9. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

10. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

11. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

12. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Mel P. Melsheimer

Mel P. Melsheimer,
Chief Financial Officer

Date: March 24, 2003

EXHIBIT INDEX

The following exhibits are filed with this report in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

Exhibit No.	Description
10.8	Harris & Harris Group, Inc. Executive Mandatory Retirement Plan.
10.9	Amendment No. 1 to Deferred Compensation Agreement.
11.0	Computation of Per Share Earnings is set forth under Item 8.
99.1	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

HARRIS & HARRIS GROUP, INC
EXECUTIVE MANDATORY RETIREMENT BENEFIT PLAN

SECTION I

PURPOSE

1.1 Purpose. The purpose of the Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan (the "Plan") is to provide those employees of Harris & Harris Group, Inc. who are required to retire pursuant to the Harris & Harris Group, Inc. Executive Mandatory Retirement Program with a nonforfeitable retirement benefit which will satisfy the requirements for exempting those employees from any prohibitions against mandatory retirement which might otherwise apply under any age discrimination laws applicable to such terminations of employment.

SECTION II

DEFINITIONS

2.1 Definitions. The following definitions shall apply for purposes of the Plan, unless a different meaning is plainly indicated by the context:

(a) Age Discrimination Acts shall mean, collectively, the federal Age Discrimination in Employ ment Act, 29 U.S.C. Section 621 et seq., the New York State Human Rights Law, N.Y. Exec. Law Section 290 et seq., the New York City Human Rights Law, Section 8-107 and any other applicable law pertaining to age discrimination, as well as any regulations promulgated under any such law.

(b) Board shall mean the Board of Directors of the Company, as constituted from time to time.

(c) Code shall mean the Internal Revenue Code of 1986, as amended from time to time.

(d) Committee shall mean a committee to administer the Program which shall be comprised of all members of the Company's Board of Directors serving from time to time who would be treated as "non-interested directors" for purposes of determining eligibility for service on the Board's Audit Committee.

(e) Company shall mean Harris & Harris Group, Inc., and any successor to all or a major portion of its assets or business, which successor assumes the obligations of the Company under this Plan by operation of law or otherwise.

(f) Effective Mandatory Retirement Date shall be the date on which an employee's employment is actually terminated in a mandatory retirement pursuant to the Program (whether such date is the Initial Mandatory Retirement Date or a later date).

(g) ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

(h) Initial Mandatory Retirement Date, for an employee of the Company who has been designated as subject to the Program, shall be December 31 of the year in which the employee attains the age of 65 years (or December 31 of such later year as the two-year "bona fide executive or high policymaking position" employment requirement of the Program is first met by the employee); provided, however, that the employee's mandatory retirement can be postponed in accordance with the Program.

(i) Mandatory Retirement Benefit Amount shall mean the lump sum equivalent of a nonforfeitable retirement benefit (within the meaning of, and calculated in accordance with, the Age Discrimination Acts) which will satisfy the requirements for exempting the Participant from any prohibitions against compulsory retirement under the Age Discrimination Acts immediately prior to the Participant's Effective Mandatory Retirement Date.

As of the adoption of this Plan, the Mandatory Retirement Benefit Amount is the lump sum equivalent of an immediate nonforfeitable straight life annuity (with no ancillary benefits) of $44,000.

(j) Offsetting Benefit Amount shall mean the aggregate lump sum equivalent of those benefits to which a Participant is entitled outside of the Plan which are treated as immediate nonforfeitable retirement benefits pursuant to the Age Discrimination Acts. The Offsetting Benefit Amount shall be calculated by adjusting the relevant benefits to lump sum equivalents in accordance with the Age Discrimination Acts.

(k) Participant shall mean any employee of the Company who is being required to retire pursuant to the Harris & Harris Group, Inc. Executive Mandatory Retirement Program and participation shall begin immediately prior to the employee's Effective Mandatory Retirement Date.

(l) Plan shall mean the Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan, as set forth in this plan instrument, as it may be amended from time to time.

(m) Plan Benefit shall mean the benefit payable to a Participant hereunder and calculated pursuant to Section 3.1 hereof.

(n) Program shall mean the Harris & Harris Group, Inc. Executive Retirement Program, as it may be amended from time to time.

SECTION III

BENEFITS

3.1 Plan Benefit. Each Participant shall be entitled under this Plan to receive a Plan Benefit equal to (or actuarially equivalent to) the result obtained by reducing the Mandatory Retirement Benefit Amount by the Participant's Offsetting Benefit Amount (if any), but only if such result is a positive amount.

The Plan Benefit shall be payable to the Participant, as determined in the sole discretion of the Committee, either (i) in the form of a lump sum within sixty days after the Participant's termination of employment or (ii) in the form of a straight life annuity (with no ancillary benefits) with payments commencing within sixty days after the Participant's termination of employment. Any adjustment to the form of payment shall be made in accordance with the Age Discrimination Acts. If the Plan Benefit is paid in a lump sum, the amount shall be adjusted to the extent necessary (if any) to comply with the Age Discrimination Acts.

3.2 Vesting. Each Participant shall become completely vested in his or her Plan Benefit immediately prior to his or her Effective Mandatory Retirement Date and the Plan Benefit shall be nonforfeitable.

SECTION IV

ADMINISTRATION

4.1 Administration. The Plan shall be administered by the Committee.

4.2 Duties. The Committee shall perform the duties required, and shall have the powers necessary, to administer the Plan and carry out the provisions thereof.

4.3 Powers. The powers of the Committee shall be as follows:

(a) To determine any question arising in connection with the Plan (and its decision or action in respect thereof shall be final, conclusive and binding upon the Company and the Participants and any other individual interested herein);

(b) To engage the services of counsel or attorney (who may be counsel or attorney for the Company) and an actuary, if it deems necessary, and such other agents or assistants as it deems advisable for the proper administration of the Plan; and

(c) To receive from the Company and from Participants such information as shall be necessary for the proper administration of the Plan.

4.4 Claims Procedure. Subject to the provisions of this Plan, the Committee shall make all determinations as to the right of any individual to a benefit. Any denial by the Committee of the claim for benefits under the Plan by a Participant or any other individual interested herein shall be stated in writing by the Committee and delivered or mailed to the Participant or such individual. Such notice shall set forth the specific reasons for the denial, written to the best of the Committee's ability in a manner that may be understood without legal or actuarial counsel. In addition, the Committee shall afford to any Participant whose claim for benefits has been denied a reasonable opportunity for a review of the decision denying the claim.

SECTION V

NONALIENATION OF BENEFITS

Neither the Participant nor any other individual shall have any right to assign or otherwise to alienate the right to receive payments under the Plan, in whole or in part.

SECTION VI

AMENDMENT AND TERMINATION

The Company reserves the right at any time by action of the Board to terminate the Plan or to amend its provisions in any way. Notwithstanding the foregoing, no termination or amendment of the Plan may reduce the benefits payable under the Plan to the Participant if the Participant's termination of employment with the Company has occurred prior to such termination of the Plan or amendment of its provisions.

SECTION VII

MISCELLANEOUS

7.1 No Right to Employment. This Plan shall not be construed as providing any Participant with the right to be retained in the Company's employ or to receive any benefit not specifically provided hereunder.

7.2 No Effect on Other Compensation and Benefits. Nothing contained herein shall exclude or in any manner modify or otherwise affect any existing or future rights of any Participant to participate in and receive the benefits of any compensation, bonus, pension, life insurance, medical and hospitalization insurance or other employee benefit plan or program to which he or she otherwise might be or become entitled as an officer or employee of the Company.

7.3 Governing Law. This Plan shall be construed in accordance with and governed by the laws of the State of New York, without regard to its conflicts of law principles.

7.4 Status. This Plan is not intended to satisfy the requirements for qualification under Section 401(a) of the Code. It is intended to be a nonqualified plan that is not subject to ERISA. The Plan shall be construed and administered so as to effectuate this intent.

7.5 Plan Expenses; Plan Unfunded. All expenses of establishing and administering the Plan shall be paid by the Company. No individual interested herein shall have any interest in any specific assets of the Company by reason of the individual's interest under the Plan, and such individuals shall have only the status of unsecured creditors of the Company with respect to any benefits that become payable under this Plan. The Company is not required to purchase any annuity from any third party to provide a Plan Benefit.

7.6 Successors. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume the Company's obligations hereunder in the same manner and to the same extent that the Com pany would be required to perform if no such succession had taken place.

7.7 Withholding Requirements. Payment of benefits under this Plan shall be subject to applicable withholding requirements.

AMENDMENT NO. 1
TO
DEFERRED COMPENSATION AGREEMENT

AMENDMENT made as of March 20, 2003, to Deferred Compensation Agreement made as of February 2, 2000 (the "Agreement"), by and between Harris & Harris Group, Inc., a corporation organized under the laws of the State of New York (the "Company"), and Charles E. Harris (the "Executive").

WHEREAS Charles E. Harris has offered for the benefit of the Company in connection with its establishment of the Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan (the "Plan") to waive certain benefit rights;

NOW, THEREFORE, the parties hereto agree as follows:

1. Section 7 of the Agreement is hereby amended to read in its entirety as follows:

"Section 7. Effect on Other Benefits.

"Any deferred compensation payable under this Agreement shall not be deemed salary or other compensation to the Executive for the purpose of computing benefits to which he may be entitled under any pension plan or other arrangement of the Company for the benefit of its employees, except under the Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan."

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to the Agreement to be executed by its duly authorized officer and the Executive has executed this Amendment No. 1 to the Agreement as of the date first above written.

HARRIS & HARRIS GROUP, INC.

By: /s/ Mel P. Melsheimer

Mel P. Melsheimer, President

/s/ Charles E. Harris

Charles E. Harris

Certification of CEO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Harris & Harris Group, Inc.(the "Company") for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Harris, as Chief Executive Officer of Harris & Harris Group, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles E. Harris
Name: Charles E. Harris
Title: Chief Executive Officer
Date: March 24, 2003

Certification of CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Harris & Harris Group, Inc.(the "Company") for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mel P. Melsheimer, as Chief Financial Officer of Harris & Harris Group, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mel P. Melsheimer
Name: Mel P. Melsheimer
Title: Chief Financial Officer
Date: March 24, 2003