

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, 2003

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.)

111 West 57th Street, New York, New York

10019

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code (212) 582-0900

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 30, 2003 was \$70,370,536 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 10, 2004 the registrant had 13,798,845 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,” “us,” “our,” and “we”) is a venture capital company specializing in tiny technology that operates as a non-diversified business development company (“BDC”) under the Investment Company Act of 1940, which we refer to as the 1940 Act. For tax purposes, we operate as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, which we refer to as the Code. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Our approach is comprised of a patient examination of available early stage opportunities, thorough due diligence and close involvement with management. As a venture capital company, we invest in and provide managerial assistance to our portfolio companies which, in our opinion, have significant potential for growth. We are managed by our Board of Directors and officers and have no investment advisor.

We make initial venture capital investments exclusively in “tiny technology,” which we define as microsystems, microelectromechanical systems (which we refer to as MEMS) and nanotechnology. We consider a company to be a tiny technology company if the company employs or intends to employ technology that we consider to be at the microscale or smaller and that is material to its business plan. Our portfolio includes non-tiny technology investments made prior to 2001, and we may make follow-on investments in either tiny or non-tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. This investment policy is not a fundamental policy and accordingly may be changed without shareholder approval, although we intend to give shareholders at least 60 days prior notice of any change in our policy.

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

Our website is www.TinyTechVC.com. We make available free of charge through our website: our annual report on Form 10-K; our quarterly reports on Form 10-Q; our 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.

Neither our investments, nor an investment in us, is intended to constitute a balanced investment program. We expect to be risk seeking rather than risk averse in our investment approach. To such end, we reserve the fullest possible freedom of action, subject to our certificate of incorporation, applicable law and regulations, and policy statements contained herein. There is no assurance that our investment objective will be achieved.

We expect to invest a substantial or major portion of our 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.

We expect to make speculative investments with limited marketability and a greater risk of investment loss than less speculative issues. Although we now restrict our initial investments to tiny technology, such technology is enabling technology applicable to a wide range of fields and businesses, and we do not seek to invest in any particular industries or categories of investments. Our securities investments may consist of private, public or governmental issuers of any type. Subject to the diversification requirements pertaining to a RIC, we may commit all of our assets to only a few investments.

Achievement of our investment objectives is basically dependent upon the judgment of a team of four professional, full-time members of management who are designated as Managing Directors, Charles E. Harris, Mel P. Melsheimer, Douglas W. Jamison and Daniel V. Leff, and two directors who are also consultants to us, Dr. Kelly S. Kirkpatrick and Lori D. Pressman. They collectively have expertise in venture capital investing, intellectual property and nanotechnology. Charles E. Harris is our Chairman and Chief Executive Officer and a "control" person as defined in the 1940 Act. 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 our behalf.

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 we 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.

Investments and Strategies

The following is a summary description of the types of assets in which we may invest, the investment strategies we may utilize and the attendant risks associated with our investments and strategies.

Equity, Equity-Related Securities and Debt with Equity Features

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

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

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

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

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

securities. The prices obtainable upon sale may be adversely affected by market conditions or negative conditions affecting the issuer during the intervening time.

Venture Capital Investments

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

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

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

- recruiting management;
- formulating operating strategies;
- formulating intellectual property strategies;;
- assisting in financial planning;
- providing management in the initial start-up stages; and
- establishing corporate goals.

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

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

in establishing its own independent capitalization, management and board of directors. We expect to be able to reduce our involvement in those start-up companies which become successful.

Debt Obligations

We may hold debt securities for income and as a reserve pending more speculative investments. Debt obligations may include U.S. government and government agency securities, commercial paper, bankers' acceptances, receivables or other asset-based financing, notes, bonds, debentures, or other debt obligations of any nature and repurchase agreements related to these securities. These obligations may have varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity from private, public or governmental issuers of any type located anywhere in the world. We may invest in debt obligations of companies with operating histories that are unprofitable or marginally profitable, that have negative net worth or are involved in bankruptcy or reorganization proceedings, or that are start-up or development stage entities. In addition, we may participate in the acquisition or divestiture of companies or divisions of companies through issuance or receipt of debt obligations.

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

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

significantly greater because lower-rated securities and comparable non-rated securities generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. We may incur additional expenses to the extent that we are required to seek recovery upon a default in the payment of principal or interest on our portfolio holdings.

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

Foreign Securities

We may make investments in securities of issuers whose principal operations are conducted outside the United States, and whose earnings and securities are stated in foreign currency. In order to maintain our status as a business development company, our investments in the stocks of companies organized outside the U.S. would be limited to 30% of our assets, because we must invest at least 70% of our assets in “qualifying assets” and foreign companies are not “qualifying assets.” We do not anticipate investing a significant portion of our assets in foreign companies.

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

Intellectual Property

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

Our form of investment may be:

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

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

Other Strategies

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

Borrowing and Margin Transactions

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

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

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

Repurchase of Shares

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

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

Portfolio Company Turnover

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

Although we expect that many of our investments will be relatively long term in nature, we may make changes in our particular portfolio holdings whenever it is considered that an investment no longer has substantial growth potential or has reached its anticipated level of performance, or (especially when cash is not otherwise available) that another investment appears to have a relatively greater opportunity for capital appreciation. We

may also make general portfolio changes to increase our cash to position us in a defensive posture. We may make portfolio changes without regard to the length of time we have held an investment, or whether a sale results in profit or loss, or whether a purchase results in the reacquisition of an investment which we may have only recently sold.

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

Investment Restrictions

When we were a regulated investment company, pursuant to a requirement under the 1940 Act, we provided that our investment objective and the following investment restrictions were fundamental and could not be changed without the approval of the holders of a majority of our outstanding voting securities (defined in the 1940 Act as the lesser of (a) more than 50% of the outstanding shares or (b) 67% or more of the shares represented at a meeting at which more than 50% of the outstanding shares are represented). The provisions of the 1940 Act regarding fundamental investment restrictions and objectives are not applicable to business development companies and accordingly we believe that the following restrictions do not apply to us although we have as a matter of fact conducted our operations consistently with them. Satisfaction of these restrictions was measured only at the time of a transaction, with the result that later changes in percentage resulting from changing market values, for example, would not be considered a deviation from policy. Under these restrictions, prior to becoming a business development company, we could not:

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

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

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

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 us and are therefore in a better position than us to obtain access to attractive venture capital investments. There can be no assurance that we 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 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).

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

As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. A majority of the directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of 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 our assets consist of qualifying assets. Qualifying assets include: (i) securities of companies that were eligible portfolio companies at the time we acquired their securities; (ii) securities of bankrupt or insolvent companies that were eligible portfolio companies at the time of our 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.

We are permitted by the 1940 Act, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock if our 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, we are also permitted by the 1940 Act to issue warrants.

Except under certain conditions, we may sell our securities at a price that is below the prevailing net asset value per share only after a majority of our disinterested directors have determined that such sale would be in the best interest of us and our stockholders and upon the approval by the holders of a majority of our 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 our 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 our 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 us and our portfolio companies.

Subchapter M Status

We elected to be treated as a Regulated Investment Company (a "RIC"), taxable under Subchapter 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, we must, in general, (1) annually derive at least 90 percent of our 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 our 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 we must annually distribute at least 90 percent of our investment company taxable income, we may either distribute or retain our 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 our realized net capital gains, we 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 our 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 we 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 we declare 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 us. 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 - Subchapter M Status.")

The following simplified examples illustrate the tax treatment under Subchapter M of the Code for us and our 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 15 percent* or \$.15 per share, retaining \$.85 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 15 percent* federal capital gains tax on 100 percent of the undistributed gain of \$1.00 per share or \$.15 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 15 percent.

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

As noted above, in order to qualify as a RIC, we quarterly must meet certain investment asset diversification requirements. Because of the specialized nature of our investment portfolio, we have been able to satisfy the diversification requirements under Subchapter 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 we received SEC certifications for 1999-2002, there can be no assurance that we will receive such certification for 2003 or subsequent years (to the extent we need additional certifications as a result of changes in our portfolio). If we require, but fail to obtain, the SEC certification for a taxable year, we will fail to qualify as a RIC for such year. We will also fail to qualify as a RIC for a taxable year if we do not satisfy the Income Source Rule or Income Distribution Rule for such year. In the event we do not qualify as a RIC for any taxable year, we will be subject to federal tax with respect to all of our taxable income, whether or not distributed. In addition, all our distributions in that situation generally will be taxable as ordinary dividends.

Although we generally intend to qualify as a RIC for each taxable year, under certain circumstances we may choose to take action with respect to one or more taxable years to ensure that we would be taxed under Subchapter C of the Code (rather than Subchapter M) for such year or years. We will take such action only if we determine that the result of the action will benefit us and our shareholders.

Prior to 1999, we were taxable under Subchapter 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"). We 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, we incurred ordinary and capital losses from our operations. After our 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. We have previously used loss carryforwards to offset Built-In Gains. As of January 1, 2004, the Company had \$501,640 of pre-1999 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 our financial statements. Enterprises held the lease for our office space until it expired on July 31, 2003, which it sublet to us and an unaffiliated party; 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. Currently, Harris Partners I, L.P. owns our interest in AlphaSimplex Group, LLC. 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

We currently employ directly six full-time employees, including Daniel V. Leff who joined us as of January 19, 2004.

Risk Factors

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

Risks related to the companies in our portfolio.

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

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

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

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

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

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

Our portfolio companies may not successfully market their products.

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

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

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

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

Our portfolio companies work with new technologies, which could have potential environmental and health impacts. Tiny technology in general and nanotechnology in particular are currently the subject of health and environmental impact research. If health or environmental concerns about tiny technology or nanotechnology were to arise, our

portfolio companies may incur additional research, legal and regulatory expenses, might have difficulty raising capital or could be forced out of business. This would have an adverse effect on the value of our portfolio and on the value of our common stock.

Risks related to the illiquidity of our investments.

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

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

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

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

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

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

Risks related to our company.

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

There is generally no public market for the equity securities in which we invest. Pursuant to the requirements of the Investment Company Act of 1940, which we refer to as the 1940 Act, we value substantially all of the equity securities in our portfolio at fair value as determined in good faith by the valuation committee of our board of directors within the guidelines established by the board of directors. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment pursuant to specified valuation principles and processes. We are required by the 1940 Act to value specifically each individual investment on a quarterly basis and record unrealized depreciation for an investment that we believe has become impaired. Conversely, we must record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value. Without a readily ascertainable market value and because of the inherent uncertainty of valuation, the fair value that we assign to our investments may differ from the values that would have been used had a ready market existed for the investments, and the difference could be material. Any changes in fair value are recorded in our consolidated statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments."

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

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

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

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

Approximately 34% of the net asset value attributable to our venture capital investment portfolio, or 12% of our net asset value, as of December 31, 2003, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.

At December 31, 2003, we valued our investment in NeuroMetrix, Inc., which is not a tiny technology company, at \$5,075,426, which represents 33.60% of the net asset value attributable to our venture capital investment portfolio, or 12.48% of our net asset value. Any downturn in the business outlook of NeuroMetrix, Inc., or any failure of the products of NeuroMetrix, Inc. to receive widespread acceptance in the marketplace, would have a significant effect on our specific investment in NeuroMetrix, Inc. and the overall value of our portfolio.

Approximately 39% of the net asset value attributable to our venture capital investment portfolio, or 15% of our net asset value, as of December 31, 2003, is not invested in tiny technology.

Although all 12 of our investments added since August 2001 have been in tiny technology companies, and although we consider 13 of the companies in our venture capital investment portfolio to be tiny technology companies, at December 31, 2003, only 60.74% of the net asset value attributable to our venture capital investment portfolio, or 22.56% of our net asset value, was invested in tiny technology companies, which may limit our ability to achieve our investment objective.

We are dependent upon key management personnel for future success.

We are dependent for the selection, structuring, closing and monitoring of our investments on the diligence and skill of our senior management and other key advisers. We utilize lawyers and outside consultants, including two of our directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, to assist us in conducting due diligence when evaluating potential investments. There is generally no publicly available information about the companies in which we invest, and we rely significantly on the diligence of our employees and advisers to obtain information in connection with our investment decisions. Our future success to a significant extent depends on the continued service and coordination of our senior management team, and particularly depends on our Chairman and Chief Executive Officer, Charles E. Harris. The departure of any of our executive officers, key employees or advisers could materially adversely affect our ability to implement our business strategy. We do not maintain for our benefit any key man life insurance on any of our officers or employees. Our President, Chief Operating Officer and Chief Financial Officer, Mel P. Melsheimer, is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. We could be adversely affected by his retirement.

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

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

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

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

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

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

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

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

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

Bank borrowing or the issuance of debt securities or preferred stock by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile.

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

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

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

We are currently authorized to issue up to 2,000,000 shares of preferred stock, under terms and conditions determined by our board of directors. These shares would have a preference over our common stock with respect to dividends and liquidation. The

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

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

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

We operate in a regulated environment.

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

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

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

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

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

Investment in foreign securities could result in additional risks.

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

Item 2. Properties

The Company maintains its offices at 111 West 57th Street, New York, New York 10019, where it leases approximately 2,600 square feet of office space pursuant to a lease agreement expiring in 2010. (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

None

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 our common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Market Prices

Our 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.

2003 Quarter Ending	Low	High
March 31	\$2.36	\$3.99
June 30	\$2.71	\$7.95
September 30	\$4.47	\$9.49
December 31	\$6.18	\$12.29
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

Dividends

On January 22, 2002, we announced a deemed dividend of \$0.0875 per share for 2001 for a total of \$775,620, and in 2002 we paid federal income taxes on behalf of shareholders of \$0.030625 per share for a total of \$271,467. We 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.

We did not pay a cash dividend or declare a deemed dividend for 2002 and 2003.

Recent Sales of Unregistered Securities

The Company did not sell any equity securities during 2003 that were not registered under the Securities Act of 1933.

Shareholders

As of February 17, 2004, there were approximately 140 holders of record of the Company's common stock which, the Company has been informed, hold the Company's common stock for approximately 12,450 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.

Financial Position as of December 31:

	2003	2002	2001	2000	1999 ¹
Total assets	\$44,115,128	\$35,951,969	\$39,682,367	\$43,343,423	\$65,320,768
Total liabilities	\$ 3,432,390	\$ 8,695,923	\$15,347,597	\$11,509,948	\$11,685,963
Net assets	\$40,682,738	\$27,256,046	\$24,334,770	\$31,833,475	\$53,634,805
Net asset value per outstanding share	\$ 2.95	\$ 2.37	\$ 2.75	\$ 3.51	\$ 5.80
Cash dividends paid	\$ 0.00	\$ 0.00	\$ 0.00	\$ 184,817	\$ 3,647,017
Cash dividends paid per outstanding share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.02	\$ 0.35
Shares outstanding	13,798,845	11,498,845	8,864,231	9,064,231	9,240,831

Operating Data for year ended December 31:

	2003	2002	2001	2000	1999
Total investment income	\$ 167,785	\$ 253,461	\$ 510,661	\$ 687,050	\$ 287,684
Total expenses ²	\$ 2,731,527	\$ 2,124,549	\$ 1,035,221	\$ (2,623,200)	\$ 9,924,020
Net operating (loss) income	\$(2,563,742)	\$(1,871,088)	\$ (524,560)	\$ 3,310,250	\$(9,636,336)
Total tax expense (benefit)	\$ 13,761	\$ 199,309	\$ 27,951	\$ (51,869)	\$ (733,970)
Net realized (loss) gain on investments	\$ (984,925)	\$ 2,390,302	\$ 1,276,366	\$ 18,963,832	\$ 8,615,670
Net realized (loss) income	\$(3,548,667)	\$ 519,214	\$ 751,806	\$ 22,274,082	\$(1,020,666)
Net increase (decrease) in unrealized appreciation on investments	\$ 343,397	\$(3,241,408)	\$(7,641,044)	\$(37,781,289)	\$38,102,047
Net (decrease) increase in net assets resulting from operations	\$(3,205,270)	\$(2,722,194)	\$(6,889,238)	\$(15,507,207)	\$37,081,381
(Decrease) increase in net assets resulting from operations per outstanding share	\$ (0.28)	\$ (0.24)	\$ (0.78)	\$ (1.71)	\$ 4.01

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

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

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 2003 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 our control. Although we believe 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 us or any other person that our objectives and plans will be achieved.

Background and Overview

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

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

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

Since our investment in Otisville in 1983, we have made a total of 54 venture capital investments, including four investments, via private placements, in securities of publicly traded companies. We have sold 36 of these 54 investments, realizing total proceeds of \$105,659,158 on our invested capital of \$38,366,523. Sixteen of these 36 investments were profitable. The average and median holding periods for these 36 investments were 3.6 years and 3.3 years, respectively. At December 31, 2003, we valued the 18 venture capital investments remaining in our portfolio at \$15,106,576, or 37.13%, of our net assets, net of unrealized depreciation of \$2,375,303. At December 31, 2003, the average and median holding periods for our 18 current venture capital investments were 2.9 years and 1.8 years, respectively.

We have invested a substantial portion of our assets in private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth, have little or no history of operations and are developing unproven technologies. At December 31, 2003, \$15,106,576, or 37.13%, of our net assets consisted of venture capital investments at fair value, net of unrealized depreciation of \$2,375,303. At December 31, 2002, \$12,036,077, or 44.2%, of our net assets consisted of venture capital investments at fair value, of which net unrealized depreciation was \$2,718,389. At December 31, 2001, \$13,120,978, or 53.9%, of our net assets consisted of venture capital investments at fair value, of which net unrealized appreciation was \$1,215,444.

Because none of our current venture capital investments have readily available market values, we value our venture capital investments each quarter at fair value as determined in good faith by our valuation committee within guidelines established by our board of directors in accordance with the 1940 Act. (See "Footnote to Consolidated Schedule of Investments" contained in Item 8. Consolidated Financial Statements and Supplementary Data.")

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

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

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

Net Operating Income / (Loss) - the difference between our income from interest, dividends, and fees and our operating expenses.

Net Realized Gain / (Loss) on Investments - the difference between the net proceeds of sales of portfolio securities and their stated cost.

Net Increase / (Decrease) in Unrealized Appreciation on Investments - the net change in the fair value of our investment portfolio.

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

Results of Operations

Years Ended December 31, 2003, 2002, and 2001

During the three years ended December 31, 2003, 2002, and 2001, we had net decreases in net assets resulting from operations of \$3,205,270, \$2,722,194 and \$6,889,238, respectively.

Investment Income and Expenses:

During the three years ended December 31, 2003, 2002, and 2001, we had net operating losses of \$2,563,742, \$1,871,088 and \$524,560, respectively. The variation in these results is primarily owing to the changes in operating expenses. During the three years ended December 31, 2003, 2002, and 2001, operating expenses were \$2,731,527, \$2,124,549 and \$1,035,221, respectively. The increase during 2003 was primarily owing to increases in salary and benefits. During 2003, the full year effect of a new employee who started in September 2002 was realized. In addition, we recorded expense of \$225,000 owing to the establishment of a Mandatory Retirement Plan in 2003. The increase in expenses in 2002 was primarily owing to the \$163,049 reversal of the profit sharing accrual in 2002 versus the \$984,021 reversal of the profit sharing accrual in 2001, as well as an increase in salaries and benefits, primarily owing to an increase in the retirement medical benefit expense and the expense of a new employee who started in September 2002, and an increase in professional fees, primarily as a result of expenses associated with new investments and preparation of our proxy statement.

Realized Gains and Losses on Sales of Portfolio Securities:

During the three years ended December 31, 2003, 2002, and 2001, we realized net (losses) gains on sales of portfolio securities of (\$971,164), \$3,284,737 and \$1,394,781, respectively.

During 2003, we realized a loss of \$1,000,001 on the tax write-off of our investment in Kriton, Inc., which had been previously written-off for book purposes. As a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., unrealized appreciation increased by \$1,000,001.

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

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

Unrealized Appreciation and Depreciation of Portfolio Securities:

During the year ended December 31, 2003, net unrealized depreciation on investments decreased by \$343,397. During the years ended December 31, 2002, and 2001, net unrealized appreciation decreased by \$3,936,534 and \$7,731,508, respectively. The decrease in net unrealized depreciation during 2003 was primarily owing to decreases in the valuations of our venture capital investments of \$1,421,220, including an increase in unrealized depreciation of Agile Material and Technologies, Inc. of \$750,000, Experion Systems, Inc. of \$325,662 and NeoPhotonics Corporation of \$345,558, offset by a decrease in unrealized depreciation of Continuum Photonics, Inc. of \$226,046 and an increase in unrealized appreciation in Nanotechnologies, Inc. of \$357,963. In addition, unrealized appreciation increased by \$1,000,001 as a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., which had previously been written off for book purposes.

The decrease during 2002 was primarily owing to decreases in the valuations of our venture capital investments of \$3,933,834, including a decrease in unrealized appreciation of NeuroMetrix, Inc. of \$1,986,081. Unrealized appreciation (depreciation) on investments was (\$2,720,113) and \$1,216,420 at December 31, 2002, and 2001, respectively.

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

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

Financial Condition

Year ended December 31, 2003

At December 31, 2003, our total assets and net assets were \$44,115,128 and \$40,682,738, respectively. Our NAV at that date was \$2.95, and our shares outstanding increased to 13,798,845 versus 11,498,845 at December 31, 2002.

During the 12 months ended December 31, 2003, significant financial developments included the receipt of net proceeds of \$16,631,962 pursuant to the issuance of 2,300,000 new shares of our common stock and a decrease in payable to broker for unsettled trade of \$5,696,725. In addition, the value of our venture capital investments increased by \$3,070,499, to \$15,106,576 at December 31, 2003, primarily owing to three new venture capital investments and five follow-on investments totaling \$3,727,718 and increases in the valuations of our venture capital investments of \$848,883, offset by write-downs in the valuations of our venture capital investments of \$1,506,102.

The following table is a summary of additions to our portfolio of venture capital investments during the year ended December 31, 2003:

<u>New Investment</u>	<u>Amount</u>
Chlorogen, Inc.	\$ 525,900
NanoGram Devices Corporation	\$ 750,000
Nanosys, Inc.	\$1,500,000
<u>Follow-on Investment</u>	
Chlorogen, Inc.	\$ 259,100
NanoOpto Corporation	\$ 125,000
Nanotechnologies, Inc.	\$ 169,718
Nantero, Inc.	\$ 323,000
NeoPhotonics, Inc.	<u>\$ 75,000</u>
Total	<u>\$3,727,718</u>

Year Ended December 31, 2002

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

During the 12 months ended December 31, 2002, significant financial developments included: (1) the payment of \$271,467 in federal income taxes as a result of our deemed dividend distribution to shareholders; (2) a net decrease in the unrealized appreciation of

our venture capital investments of \$3,933,834, including a decrease in the unrealized appreciation of NeuroMetrix, Inc. of \$1,986,081; (3) a decrease in bank loan payable of \$12,495,777; (4) the receipt of net proceeds of \$5,643,470 pursuant to the issuance and exercise of transferable rights for 2,634,614 new shares of our common stock; and (5) the receipt of \$5,700,000 in cash and a recorded receivable in the amount of \$786,492 related to the liquidation of our partnership interest in PHZ Capital Partners L.P.

In addition, the value of our venture capital investments decreased by \$1,084,901, to \$12,036,077 at December 31, 2002, primarily owing to seven new venture capital investments and two follow-on investments totaling \$7,195,988, partially offset by write-downs in the valuations of our venture capital investments of \$5,213,959 and the liquidations of Informio, Inc. and our partnership interest in PHZ Capital Partners L.P., which decreased the value of our venture capital investments by a total of \$3,072,382 from the value at December 31, 2001.

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

<u>New Investment</u>	<u>Amount</u>
Agile Materials & Technologies, Inc.	\$1,000,000
Continuum Photonics, Inc.	\$1,000,000
Nanopharma Corp.	\$ 700,000
NanoOpto Corporation	\$ 625,000
Nanotechnologies, Inc.	\$ 750,000
Neo Photonics Corporation	\$1,000,000
Optiva, Inc.	\$1,250,000
 Follow-on Investment	
Experion Systems, Inc.	\$ 517,706
NeuroMetrix, Inc.	<u>\$ 353,282</u>
 Total	 <u>\$7,195,988</u>

The following tables summarize the fair value of our portfolios of venture capital investments and U.S. Government and Agency Obligations, as compared with their cost, at December 31, 2003, and December 31, 2002:

	December 31,	
	2003	2002
	<hr/>	<hr/>
Venture capital investments, at cost	\$17,481,879	\$14,754,466
Unrealized depreciation ⁽¹⁾	<u>2,375,303</u>	<u>2,718,389</u>
Venture capital investments, at fair value	<u>\$15,106,576</u>	<u>\$12,036,077</u>

	December 31,	
	2003	2002
U.S. Government and Agency Obligations, at cost	\$27,121,899	\$15,452,469
Unrealized depreciation ⁽¹⁾	<u>1,413</u>	<u>1,724</u>
U.S. Government and Agency Obligations, at fair value	<u>\$27,120,486</u>	<u>\$15,450,745</u>

⁽¹⁾At December 31, 2003, and December 31, 2002, the accumulated unrealized depreciation on investments, including deferred taxes, was \$3,221,635 and \$3,565,032, respectively.

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

	December 31,	
Category	2003	2002
Tiny Technology	60.7%	49.0%
Other Venture Capital Investments	<u>39.3%</u>	<u>51.0%</u>
Total Venture Capital Investments	<u>100.0%</u>	<u>100.0%</u>

Cash Flow

Year Ended December 31, 2003

Cash flow used in operating activities for the year ended December 31, 2003, was \$6,592,321, reflecting the following changes from December 31, 2002, to December 31, 2003: an increase to restricted funds of \$455,134; a payment of a payable to a broker for an unsettled trade of \$5,696,725; and a decrease to current income tax liability of \$857,656. In addition, net realized and unrealized loss on investments was \$1,047,140, and the net decrease in net assets resulting from operations was \$3,624,643.

Cash used in investing activities for the year ended December 31, 2003, was \$15,582,923, primarily reflecting an increase in our investment in U.S. Treasury Bills of \$11,669,430 and investments in private placements of \$3,727,718.

Cash provided by financing activities for the year ended December 31, 2003, was \$16,633,462, primarily reflecting net proceeds of \$16,631,962 from the issuance of 2,300,000 new shares of our common stock. We expect to invest or earmark for investment the net proceeds within approximately one year, depending on the available investment opportunities for the types of investments that we make. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of shares of our common stock in time deposits and/or income-producing securities that are issued or guaranteed by

the federal government or an agency of the federal government of a government owned corporation, which are likely to yield less than our operating expense ratio. We may also pay operating expenses, including due diligence expenses on potential investments, from the proceeds, which will reduce the net proceeds of any offering of shares of our common stock that we will have available for investment.

Year Ended December 31, 2002

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

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

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

Liquidity and Capital Resources

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

Year Ended December 31, 2003

At December 31, 2003, 2002, and 2001, our net primary liquidity was \$27,563,886, \$16,508,057 and \$13,459,654, respectively. On each of those corresponding dates, our secondary liquidity was \$0, as we had no restricted securities of companies that are publicly traded.

Our net primary sources of liquidity are more than adequate to cover our gross cash operating expenses over the next 12 months. Our gross cash operating expenses totaled \$2,455,454, \$2,256,991 and \$1,992,341 in 2003, 2002 and 2001, respectively.

During the year ended December 31, 2003, the increase in our net primary liquidity was primarily owing to: (1) our payment of federal, state and local taxes; (2) our investments in Chlorogen, Inc., NanoGram Devices Corporation, NanoOpto Corporation,

Nanosys, Inc., Nanotechnologies, Inc., Nantero, Inc. and NeoPhotonics, Inc.; and (3) our use of funds for operating expenses; offset by our receipt of \$16,631,962 of net proceeds from an offering of our common stock that closed on December 30, 2003.

On November 19, 2001, we established an asset account line of credit of up to \$12,700,000. The asset account line of credit is secured by our U.S. government and government agency securities. Under the asset account line of credit, we may borrow up to 95% of the current value of our U.S. government and government agency securities. Our outstanding balance under the asset line of credit at both December 31, 2003, and December 31, 2002, was \$0. The asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

Year Ended December 31, 2002

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

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

Critical Accounting Policies

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

Valuation of Portfolio Investments

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

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

Recent Developments — Portfolio Companies

During 2004 to the date of this filing, we have made three follow-on investments totaling \$688,401 and one new investment of \$150,000 in privately held tiny-technology companies.

In January 2004, we sold our investment in the preferred stock of NeoPhotonics, Inc., which had been valued at \$0, for \$10. We will realize a tax loss of \$915,108 on the transaction, which had previously been written off for book purposes.

Other Developments

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

As of January 19, 2004, Daniel V. Leff, Ph.D., joined the Company as Executive Vice President and Managing Director. Mr. Leff was most recently a Senior Associate with Sevin Rosen Funds in the firm's Dallas, Texas office. He will relocate to Los Angeles, California, where he will establish and head a West Coast office for Harris & Harris Group. As of March 15, 2004, we entered into a 12 month agreement for office space in Los Angeles at an annual expense of \$26,100. This agreement is renewable upon mutual consent of the parties. In addition, as a Managing Director, Mr. Leff will be one of our four decision makers with respect to all of our venture capital investments. He will also be involved in the Company's strategic direction, along with our other senior officers.

On February 17, 2004, we filed a registration statement with the Securities and Exchange Commission on Form N-2 with respect to 3,000,000 shares of our Common Stock. After the effective date, the Common Stock may be sold at prices and on terms to be set forth in one or more supplements to the prospectus from time to time.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Our business activities are highly risky. We consider 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 our investments nor an investment in us is intended to constitute a balanced investment program. We have exposure to public-market price fluctuations to the extent of our publicly traded portfolio.

We have invested a substantial portion of our assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies 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. We expect that some of our 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 our private equity investments complete initial public offerings (IPOs), we are 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 we invest, the valuation of the equity interests in our portfolio is subject to the estimate of our Board of Directors in accordance with our Asset Valuation Policy Guidelines. In the absence of a readily ascertainable market value, the estimated value of our 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 our 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.

<u>Documents</u>	<u>Page</u>
Report of Independent Auditors.....	39
<u>Consolidated Financial Statements</u>	
Consolidated Statements of Assets and Liabilities as of December 31, 2003 and 2002	40
Consolidated Statements of Operations for the years ended December 31, 2003, 2002, 2001.....	41
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001.....	42
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2003, 2002 and 2001.....	43
Consolidated Schedule of Investments as of December 31, 2003	44-47
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Notes to Consolidated Financial Statements.....	51-60
Financial Highlights for the years ended December 31, 2003, 2002, 2001, 2000 and 1999.....	61

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 AUDITORS

Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedule of investments, and the related consolidated statements of operations, of cash flows and of changes in net assets present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. (the "Company") at December 31, 2003 and December 31, 2002, and the results of its operations, its cash flows and the changes in its net assets for each of the two years in the period 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 audits. We conducted our audits 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 audits, which included confirmation of securities at December 31, 2003 by correspondence with the custodian, provide a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and for the year 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 \$15,106,576 (37.13% of net assets) at December 31, 2003, 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 10, 2004
New York, N.Y.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	<u>ASSETS</u>	
	December 31, 2003	December 31, 2002
Investments, at value (Cost: \$44,603,778 at 12/31/03, \$30,206,935 at 12/31/02)	\$ 42,227,062	\$ 27,486,822
Cash and cash equivalents	425,574	5,967,356
Restricted funds (Note 5)	1,212,078	756,944
Funds in escrow	0	750,000
Receivable from portfolio company	0	786,492
Interest receivable	450	189
Income tax receivable	17,375	0
Prepaid expenses	6,841	96,631
Other assets	225,748	107,535
Total assets	<u>\$ 44,115,128</u>	<u>35,951,969</u>
 <u>LIABILITIES & NET ASSETS</u>		
Accounts payable and accrued liabilities	\$ 2,723,398	\$ 1,451,568
Payable to broker for unsettled trade	0	5,696,725
Accrued profit sharing (Note 3)	0	15,233
Deferred rent	39,648	5,397
Current income tax liability	0	857,656
Deferred income tax liability (Note 6)	669,344	669,344
Total liabilities	<u>3,432,390</u>	<u>8,695,923</u>
Commitments and contingencies (Note 7)		
Net assets	<u>\$ 40,682,738</u>	<u>\$ 27,256,046</u>
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; 15,627,585 issued at 12/31/03 and 13,327,585 issued at 12/31/02	156,276	133,276
Additional paid in capital (Note 4)	49,564,475	32,845,872
Additional paid in capital - common stock warrants (Note 4)	0	109,641
Accumulated net realized gain (loss)	(2,410,847)	1,137,820
Accumulated unrealized depreciation of investments, including deferred tax liability of \$844,918 at 12/31/03 and 12/31/02 ..	(3,221,635)	(3,565,032)
Treasury stock, at cost (1,828,740 shares at 12/31/03 and 12/31/02)	(3,405,531)	(3,405,531)
Net assets	<u>\$ 40,682,738</u>	<u>\$ 27,256,046</u>
Shares outstanding	<u>13,798,845</u>	<u>11,498,845</u>
Net asset value per outstanding share	<u>\$ 2.95</u>	<u>\$ 2.37</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Investment income:			
Interest from:			
Fixed-income securities	\$ 125,173	\$ 184,050	\$ 422,196
Portfolio companies	450	0	9,616
Dividend income	0	0	1,000
Other income	<u>42,162</u>	<u>69,411</u>	<u>77,849</u>
Total investment income	167,785	253,461	510,661
Expenses:			
Profit-sharing reversal (Note 3)	0	(163,049)	(984,021)
Salaries and benefits	1,540,692	1,130,352	1,045,063
Professional fees	303,795	344,717	261,582
Administration and operations	446,185	433,569	406,488
Rent	200,711	173,291	166,312
Directors' fees and expenses	162,014	154,682	90,047
Depreciation	51,073	30,607	26,901
Custodian fees	10,178	9,604	14,518
Interest expense (Note 4)	<u>16,879</u>	<u>10,776</u>	<u>8,331</u>
Total expenses	<u>2,731,527</u>	<u>2,124,549</u>	<u>1,035,221</u>
Operating loss before income taxes	(2,563,742)	(1,871,088)	(524,560)
Income tax benefit (Note 6)	<u>0</u>	<u>0</u>	<u>0</u>
Net operating loss	(2,563,742)	(1,871,088)	(524,560)
Net realized (loss) income from investments:			
Realized (loss) income from investments	<u>(971,164)</u>	<u>3,284,737</u>	<u>1,394,781</u>
Total realized (loss) income	(971,164)	3,284,737	1,394,781
Income tax expense (Note 6)	<u>(13,761)</u>	<u>(894,435)</u>	<u>(118,415)</u>
Net realized (loss) income from investments	<u>(984,925)</u>	<u>2,390,302</u>	<u>1,276,366</u>
Net realized (loss) income	(3,548,667)	519,214	751,806
Net decrease (increase) in unrealized depreciation on investments:			
Increase as a result of investment sales	1,000,001	1,602,048	4,802,738
Decrease as a result of investment sales	0	(322,208)	(854,467)
Increase on investments held	764,616	285	3,232,919
Decrease on investments held	<u>(1,421,220)</u>	<u>(5,216,659)</u>	<u>(14,912,698)</u>
Change in unrealized depreciation on investments	343,397	(3,936,534)	(7,731,508)
Income tax benefit (Note 6)	<u>0</u>	<u>695,126</u>	<u>90,464</u>
Net decrease (increase) in unrealized depreciation on investments	<u>343,397</u>	<u>(3,241,408)</u>	<u>(7,641,044)</u>
Net decrease in net assets resulting from operations:			
Total	<u>\$ (3,205,270)</u>	<u>\$ (2,722,194)</u>	<u>\$ (6,889,238)</u>
Per outstanding share	<u>\$ (0.28)</u>	<u>\$ (0.24)</u>	<u>\$ (0.78)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Cash flows used in operating activities:			
Net decrease in net assets			
resulting from operations.....	\$ (3,205,270)	\$ (2,722,194)	\$ (6,889,238)
Adjustments to reconcile net decrease in net assets			
resulting from operations to net cash used in operating activities:			
Net realized and unrealized loss on investments	627,767	651,797	5,950,398
Deferred income taxes	0	(695,126)	90,464
Depreciation	51,073	30,607	26,901
Other	0	0	2,010
Changes in assets and liabilities:			
Restricted funds	(455,134)	(274,924)	(216,837)
Receivable from portfolio company	786,492	(786,492)	0
Funds in escrow	750,000	(750,000)	0
Interest receivable.....	(261)	(107)	30,000
Income tax receivable	(17,375)	0	0
Prepaid expenses	89,790	(81,798)	67,782
Notes receivable	0	10,487	401
Other assets	44,130	1,570	23,667
Accounts payable and accrued liabilities.....	1,271,830	412,217	267,587
Payable to broker for unsettled trade	(5,696,725)	5,696,725	(115,005)
Accrued profit sharing	(15,233)	(163,049)	(3,304,959)
Deferred rent	34,251	(9,253)	(9,253)
Current income tax liability	(857,656)	602,588	(5,496,498)
Net cash (used in) provided by operating activities	(6,592,321)	1,923,048	(9,572,580)
Cash provided by investing activities:			
Net (purchase) sale of short-term investments			
and marketable securities	(11,669,430)	10,358,006	(10,263,667)
Investment in private placements and loans	(3,727,718)	(7,195,988)	(1,818,826)
Proceeds from sale of investments	27,641	7,631,100	9,385,615
Purchase of fixed assets	(213,416)	(41,138)	(6,508)
Net cash (used in) provided by investing activities	(15,582,923)	10,751,980	(2,703,386)
Cash flows used in financing activities:			
Purchase of treasury stock (Note 4).....	0	0	(338,000)
Proceeds from note payable	0	0	12,495,777
Payment of note payable (Note 4).....	0	(12,495,777)	0
Proceeds from public offering, net (Note 4).....	16,631,962	5,643,470	0
Collection on notes receivable	1,500	9,500	0
Net cash provided by (used in) financing activities.....	16,633,462	(6,842,807)	12,157,777
Net (decrease) increase in cash and cash equivalents:			
Cash and cash equivalents at beginning of the year	5,967,356	135,135	253,324
Cash and cash equivalents at end of the year	425,574	5,967,356	135,135
Net (decrease) increase in cash and cash equivalents..	\$ (5,541,782)	\$ 5,832,221	\$ (118,189)
Supplemental disclosures of cash flow information:			
Income taxes paid	\$ 575,100	\$ 307,585	\$ 5,795,916
Interest paid	\$ 16,879	\$ 19,106	\$ 0

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Changes in net assets from operations:			
Net operating loss	\$(2,563,742)	\$(1,871,088)	\$ (524,560)
Net realized (loss) income on investments .	(984,925)	2,390,302	1,276,366
Net increase in unrealized appreciation on investments as a result of sales.....	1,000,001	1,279,840	4,038,735
Net decrease in unrealized appreciation on investments held	<u>(656,604)</u>	<u>(4,521,248)</u>	<u>(11,679,779)</u>
Net decrease in net assets resulting from operations.....	(3,205,270)	(2,722,194)	(6,889,238)
Changes in net assets from capital stock transactions:			
Purchase of treasury stock	0	0	(338,000)
Proceeds from sale of stock	23,000	26,346	0
Additional paid in capital on common stock issued	16,608,962	5,617,124	0
Deemed dividend shareholder tax credit	<u>0</u>	<u>0</u>	<u>(271,467)</u>
Net increase (decrease) in net assets resulting from capital stock transactions.....	<u>16,631,962</u>	<u>5,643,470</u>	<u>(609,467)</u>
Net increase (decrease) in net assets.....	<u>13,426,692</u>	<u>2,921,276</u>	<u>(7,498,705)</u>
Net Assets:			
Beginning of the year	<u>27,256,046</u>	<u>24,334,770</u>	<u>31,833,475</u>
End of the year	<u>\$40,682,738</u>	<u>\$27,256,046</u>	<u>\$24,334,770</u>

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

	<u>Method of Valuation (3)</u>	<u>Shares/ Principal</u>	<u>Value</u>
Investments in Unaffiliated Companies (8)(9)(10) – 11.3% of total investments			
Private Placement Portfolio (Illiquid) -- 11.3% of total investments			
AlphaSimplex Group, LLC (2)(12) -- Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT Limited Liability Company interest	(B)	--	\$ 118,750
Continuum Photonics, Inc. (1)(2)(6) -- Develops optical networking components by merging cutting-edge materials, MEMS and electronics technologies -- 3.70% of fully diluted equity Series B Convertible Preferred Stock	(D)	2,000,000	745,035
Exponential Business Development Company (1)(2)(5)(12) -- Venture capital partnership focused on early stage companies Limited Partnership interest	(A)	--	25,000
Heartware, Inc. (1)(2)(6)(15) -- Develops ventricular assist devices -- 0% percent of fully diluted equity Series A-2 Non-Voting Preferred Stock	(D)	47,620	0
NanoGram Corporation (1)(2)(4)(6)(13) -- Develops a broad suite of intellectual property utilizing nanotechnology -- 1.81% of fully diluted equity Series 1 Convertible Preferred Stock.....	(A)	63,210	21,672
NanoOpto Corporation (1)(2)(6) -- Develops high performance, integrated optical communications sub-components on a chip by utilizing patented nano-manufacturing technology -- 2.60% of fully diluted equity Series A-1 Convertible Preferred Stock	(B)	267,857	
Series B Convertible Preferred Stock	(B)	293,842	172,567
Nanosys, Inc. (1)(2)(4)(6) -- Develops nanotechnology-enabled systems incorporating novel and patent-protected zero and one-dimensional nanometer-scale materials -- 1.65% of fully diluted equity Series C Convertible Preferred Stock	(A)	803,428	1,500,000
Nantero, Inc. (1)(2)(6) -- Develops a high density nonvolatile random access memory chip using nanotechnology -- 3.35% of fully diluted equity Series A Convertible Preferred Stock	(B)	345,070	
Series B Convertible Preferred Stock	(B)	207,051	861,309
NeoPhotonics Corporation (1)(2)(6)(13)(14) -- Develops and manufactures planar optical devices and components using nanomaterials deposition technology -- 1.53% of fully diluted equity Series D Convertible Preferred Stock	(D)	1,498,802	
Secured Convertible Note	(D)	\$75,000	75,000
Optiva, Inc. (1)(2)(5)(6) -- Develops and commercializes nanomaterials for advanced applications -- 1.96% of fully diluted equity Series C Convertible Preferred Stock	(B)	1,249,999	<u>1,250,000</u>
Total Private Placement Portfolio (cost: \$6,354,651)			<u>\$4,769,333</u>
Total Investments in Unaffiliated Companies (cost: \$6,354,651)			<u>\$4,769,333</u>

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

	<u>Method of Valuation (3)</u>	<u>Shares/ Principal</u>	<u>Value</u>
Investments in Non-Controlled Affiliated Companies (8)(9)(11) – 24.5% of total investments			
Private Placement Portfolio (Illiquid) – 24.5% of total investments			
Agile Materials & Technologies, Inc. (1)(2)(6) -- Develops and sells variable integrated passive RF electronic equipment components -- 8.15% of fully diluted equity			
Series A Convertible Preferred Stock	(D)	3,732,736	\$ 250,000
Chlorogen, Inc. (1)(2)(4)(6) -- Develops patented chloroplast technology to produce plant-made proteins -- 9.76% of fully diluted equity			
Series A Convertible Preferred Stock	(A)	4,478,038	785,000
Experion Systems, Inc. (1)(2)(5)(7) -- Develops and sells software to credit unions -- 12.44% 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	711,338
NanoGram Devices Corporation (1)(2)(4)(6)(14) -- Develops power components for biomedical applications by utilizing a patented nanomaterial synthesis process -- 5.00% of fully diluted equity			
Series A-1 Convertible Preferred Stock	(A)	63,210	
Series A-2 Convertible Preferred Stock	(A)	750,000	813,210
Nanopharma Corp. (1)(2)(5)(6) -- Develops advanced nanoscopic drug delivery vehicles and systems -- 14.39% of fully diluted equity			
Series A Convertible Preferred Stock	(A)	684,516	700,000
Nanotechnologies, Inc. (1)(2)(6) -- Develops high-performance nanoscale materials for industry -- 6.48% of fully diluted equity			
Series B Convertible Preferred Stock	(B)	1,538,837	
Series C Convertible Preferred Stock	(B)	235,720	1,277,681
NeuroMetrix, Inc. (1)(2)(5) -- Develops and sells medical devices for monitoring neuromuscular disorders -- 12.08% 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 -- 6.73% of fully diluted equity			
Common Stock	(B)	646,954	
Warrants at \$5.00 expiring 10/25/04	(B)	1,966	
Warrants at \$1.50 expiring 11/16/05	(B)	1,250	
Warrants at \$1.50 expiring 08/03/06	(B)	8,500	
Warrants at \$1.50 expiring 11/21/07	(B)	3,750	
Warrants at \$1.50 expiring 11/19/08	(B)	5,000	<u>724,588</u>
Total Private Placement Portfolio (cost: \$11,127,228)			<u>\$10,337,243</u>
Total Investments in Non-Controlled Affiliated Companies (cost: \$11,127,228)			<u>\$10,337,243</u>

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

	<u>Method of Valuation (3)</u>	<u>Shares/ Principal</u>	<u>Value</u>
U.S. Government and Agency Obligations – 64.2% of total investments			
U.S. Treasury Bills -- due date 01/08/04.....	(J)	\$4,264,000	\$ 4,263,275
U.S. Treasury Bills -- due date 01/15/04.....	(J)	900,000	899,658
U.S. Treasury Bills -- due date 02/05/04.....	(J)	17,308,000	17,293,634
U.S. Treasury Bills -- due date 02/12/04.....	(J)	1,670,000	1,668,347
U.S. Treasury Bills -- due date 02/19/04.....	(J)	1,600,000	1,598,176
U.S. Treasury Bills -- due date 03/18/04.....	(J)	1,400,000	<u>1,397,396</u>
Total Investments in U.S. Government (cost: \$27,121,899).....			<u>\$27,120,486</u>
Total Investments -- 100% (cost: \$44,603,778).....			<u>\$42,227,062</u>

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

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 2003.
- (5) No changes in valuation occurred in these investments during the 12 months ended December 31, 2003.
- (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 we own less than five percent of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own more than five percent but less than 25 percent of the portfolio company. Investments in controlled affiliated companies consist of investments in which we own 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 we own 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 \$6,354,651. The gross unrealized appreciation based on the tax cost for these securities is \$162,198. The gross unrealized depreciation based on the tax cost for these securities is \$1,747,516.
- (11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is \$11,127,228. The gross unrealized appreciation based on the tax cost for these securities is \$2,772,007. The gross unrealized depreciation based on the tax cost for these securities is \$3,561,992.
- (12) Non-registered investment company.
- (13) On April 30, 2003, NeoPhotonics Corporation distributed its shares in NanoGram Corporation to shareholders of record on November 14, 2002. We received 63,210 shares of Series 1 Preferred Stock.
- (14) On April 30, 2003, NeoPhotonics Corporation distributed its shares in NanoGram Devices Corporation to shareholders of record on November 14, 2002. We received 63,210 shares of Series A-1 Convertible Preferred Stock.
- (15) On July 10, 2003, we received 47,620 shares of Series A-2 Non-Voting Preferred stock of Heartware, Inc., a new company formed to acquire the assets and assume certain liabilities of Kriton Medical, Inc. as part of Kriton's bankruptcy.

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

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

Our 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 our portfolio to determine net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

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

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

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

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

Our valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

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

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

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

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

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

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 us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities we owned 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 our original cost. This method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

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 us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of

values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent, projected markets, and other subjective factors.

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.

I. Fixed-Income 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:

Independent pricing services that provide quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

Fair value as determined in good faith by the Valuation Committee.

SHORT-TERM FIXED-INCOME INVESTMENTS

J. 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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we") is a venture capital company operating as a business development company ("BDC") under the Investment Company Act of 1940, which we refer to as the 1940 Act. A BDC is a specialized type of company under the 1940 Act. We operate as an internally managed investment company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

We elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992, until the election of BDC status, we operated as a closed-end, non-diversified investment company under the 1940 Act. Upon commencement of operations as an investment company, we revalued all of our assets and liabilities at fair value as defined in the 1940 Act. Prior to such time, we were 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 held the lease for the office space until it expired on July 31, 2003, which it sublet to the Company and an unaffiliated party; 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. Currently, Harris Partners I, L.P. owns our interest in AlphaSimplex Group, LLC. The partners of Harris Partners I, L.P. are Enterprises (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

We filed for the 1999 tax year 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 2000-2002. There can be no assurance that we will qualify as a RIC for 2003 and subsequent years or that if we do qualify, we will continue to qualify for subsequent years. In addition, even if we were to qualify as a RIC for a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, we must, among other factors, distribute at least 90 percent of our investment company taxable income and may either distribute or retain our 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 "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other assets is 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, we 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 our unrealized appreciation on investments.

The December 31, 2003 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 us through December 31, 1998.

We pay federal, state and local income taxes on behalf of our 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, 2003, and December 31, 2002, and the reported amounts of revenues and expenses for the three years ended December 31, 2003. The most significant estimates relate to the fair valuations of investments for the years ended December 31, 2003, and 2002. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

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

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

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

On October 15, 2002, our shareholders approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2003. The Code generally provides that a public company such as we are may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to the officer/employee exceeds \$1,000,000 in any tax year, unless payment is made upon the attainment of objective performance goals that are approved by our shareholders.

Under the 2002 Plan, our net realized income includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or loss carry-overs from other years, which we refer to as qualifying income. As soon as practicable following the year-end audit, the Audit Committee will determine whether, and if so how much, qualifying income exists for a plan year. Once determined, 90% of the qualifying income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10% will be paid out after we have filed our federal tax return for that plan year.

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

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which we remain a “business development company” within the meaning of the 1940 Act be greater than 20% of our “net income after taxes” within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed that amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Compensation Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be further modified. Nothing in the 2002 Plan will preclude the Compensation Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Currently, under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee are: Charles E. Harris, 7.790%; Mel P. Melsheimer, 3.733%; Douglas W. Jamison, 3.5%; Daniel V. Leff, 3.0%; Helene B. Shavin, 1.524%; and Jacqueline M. Matthews, 0.453%, which together equal 20%. In one case, for a former employee who left other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to the participant.

The grandfathered participations are set forth below:

Name of Officer/Employee	Grandfathered Participations	
	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	0.40770	0.33975
TOTAL	18.00000	15.00000

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

We calculate the profit-sharing accrual based on the terms of the plan in effect. During the first quarter of 2003, we paid out 90 percent of the 2002 profit sharing in the amount of \$13,710. The remaining 10 percent of the 2002 profit sharing, \$1,523, was paid out upon the completion and filing of our 2002 federal tax return. During 2003, we made no accrual for profit sharing.

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 our common stock from us. However, effective March 1, 1999, the Board of Directors approved that Directors may purchase our common stock in the open market, rather than from us.

Since 1998, we have repurchased a total of 1,859,047 of our 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 our strategic decision to invest in tiny technology, the Board of Directors reaffirmed its commitment not to authorize the purchase of additional shares of stock in the foreseeable future.

On July 8, 2002, we filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for the issuance of transferable rights to our shareholders. The rights allowed the shareholders to subscribe for a maximum of 2,954,743 new shares of our 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. From the completion of the offering through December 31, 2003, we have invested \$5,477,718 in accordance with our investment objectives and policies.

On December 24, 2003, we filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for issuance of 2,000,000 shares of our common stock plus 300,000 additional shares if the underwriter exercised its over-allotment option. All of the 2,300,000 shares were sold. The actual amount of net proceeds raised upon completion of the offering was \$17,296,000; net proceeds of the offering, less offering costs of \$664,038, were \$16,631,962. We intend to use the net proceeds of the offering, less offering costs, to make new investments in tiny technology as well as follow-on investments in our existing venture capital investments, and for working capital.

As of December 31, 2003, there are no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is primarily attributed to Built-In Gains generated at the time of our qualification as a RIC (see Note 6. "Income Taxes"), nondeductible deferred compensation and net operating losses.

Beginning with the Consolidated Statements of Assets and Liabilities at December 31, 2003, additional paid in capital common stock warrants and additional paid in capital have been combined and are reported as additional paid in capital.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with us (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 we 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 our Chairman and Chief Executive Officer; be responsible for the general management of our affairs and all our subsidiaries, reporting directly to our Board of Directors; 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 our President and as an officer and director of any subsidiary or affiliate of us.

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 our 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, we will 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 us to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, we 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 our books 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's 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 of his employment, 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. We will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by us under the SERP. The restricted funds for the SERP Plan total \$1,212,078 as December 31, 2003. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of us.

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 us, effective August 15, 1990. The severance compensation agreement provides that if, following a change in our control, as defined in the agreement, such individual's employment is terminated by us 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's 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, we adopted an employee benefits program covering substantially all of our employees under a 401(k) Plan and Trust Agreement. As of January 1, 1999, we adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow us 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 us 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 our discretion.

On June 30, 1994, we adopted a plan to provide medical and dental insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with us and have attained 50 years of age or have attained 45 years of age and have 15 years of service with us. On February 10, 1997, we 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. The annual premium cost to us with respect to the entitled retiree shall not exceed \$12,000, subject to an index for inflation. Based upon actuarial estimates, we provided an original reserve of \$176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 2003, we had a reserve of \$531,293 for the plan. Recent changes to the Medicare program may affect our costs under this plan. In accordance with FASB Staff Position 106-1, our estimates of the obligation under this standard do not reflect these changes. Specific authoritative guidance regarding these changes is pending and when issued, could require us to change previously reported information.

We are making the following disclosures about our plan to provide medical and dental insurance for retirees.

<u>Reconciliation of Accumulated Postretirement Benefit Obligations</u>	<u>2003</u>	<u>2002</u>
Projected accumulated postretirement benefit obligation at beginning of year	\$404,912	\$324,100
Service cost	58,710	38,772
Interest cost	26,281	22,347
Actual (gain)/loss	<u>35,385</u>	<u>19,693</u>
Projected accumulated postretirement benefit obligation at end of year	<u>\$525,288</u>	<u>\$404,912</u>

In accounting for the plan, the assumption made in 2003 for the discount rate was 6%. The assumed health care cost trend rates in 2003 were 12% grading to 6% over six years for medical and 3% per year for dental. The effect on disclosure information of a one percentage point change in the assumed health care cost trend rate for each future year is shown below.

	<u>1% Decrease in Rates</u>	<u>Assumed Rates</u>	<u>1% Increase in Rates</u>
Aggregated service and interest cost	\$ 76,271	\$ 84,991	\$ 93,241
Accumulated postretirement benefit obligation	\$477,410	\$525,288	\$578,459

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 us 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 our benefit.

Under applicable law prohibiting discrimination in employment on the basis of age, we can impose a mandatory retirement age of 65 for our executives or employees in high policy-making positions only if each employee subject to the mandatory retirement age is entitled to an immediate retirement benefit at retirement age of at least \$44,000 per year. The benefits payable at retirement to Charles E. Harris, our Chairman and Chief Executive Officer, and Mel P. Melsheimer, our President, Chief Operating Officer and Chief Financial Officer, under our existing retirement plans do not equal this threshold. Mr. Harris has offered, for our benefit, to waive his right to exclude certain other benefits from this calculation, which makes it unlikely that any provision will have to be made for him in order for us to comply with this threshold requirement. For Mr. Melsheimer, however, a new plan must be established to provide him with the difference between the benefit required under the age discrimination laws and that provided under our existing plans. The expense to us of providing the benefit under this new plan is currently estimated to be \$450,000. This benefit will be unfunded, and the expense is being amortized over the fiscal periods through the year ended December 31, 2004.

NOTE 6. INCOME TAXES

Provided that a proper election is made, a corporation taxable under Subchapter 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.)

We had Built-In Gains at the time of our qualification as a RIC and made the election to be taxed on any Built-In Gain realized during the Inclusion Period. Prior to 1999, we incurred ordinary and capital losses from operations. After our election of RIC status, those losses remained available to be carried forward to subsequent taxable years. We have previously used loss carryforwards to offset Built-In Gains. As of January 1, 2004, we had \$501,640 of pre-1999 loss carryforwards remaining and \$4,663,457 of unrealized Built-In Gains remaining.

Continued qualification as a RIC requires us to satisfy certain investment asset diversification requirements in future years. Our ability to satisfy those requirements may not be controllable by us. There can be no assurance that we will qualify as a RIC in subsequent years.

To the extent that we retain capital gains and declare a deemed dividend to shareholders, the dividend is taxable to the shareholders. We 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. We took advantage of this rule for 2001. Our financial statements for 2001 include a tax liability of \$290,748. The taxes paid by our shareholders as a result of our deemed dividend declaration 2001 (\$271,467) are reflected as a deduction to the additional paid-in capital in our Consolidated Statement of Assets and Liabilities rather than an expense in the Consolidated Statement of Operations.

We pay federal, state and local taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is taxed as a C Corporation.

In 2003, we realized long-term capital losses of \$1,000,001 from the tax write-off of Kriton Medical, Inc. We also had net realized short-term gains of \$17,590 from the sale of U.S. Government and Agency obligations. We offset our net realized short-term capital gains with our long-term capital losses and neither owed federal income on the gain nor were required to distribute any portion of this gain to shareholders. As of December 31, 2003, we have a capital loss carryforward of \$914,225 which will expire in 2011. To the extent that these carryover losses are used to offset future capital gains, it is probable that the gains so offset will not be distributed to shareholders.

In 2002, we realized long-term capital losses of \$470,622 primarily from long-term capital gains of \$1,008,653 from the liquidation of our 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. We also realized short-term capital gains of \$732,936 primarily from the liquidation of our 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. We offset the net realized short-term gains with 2002 expenses and neither owed federal income taxes on the gain nor were required to distribute any portion of this gain to shareholders.

For the years ended December 31, 2003, 2002 and 2001, the Company's income tax (benefit) expense was allocated as follows:

	2003	2002	2001
Investment operations	\$ 0	\$ 0	\$ 0
Realized income on investments	13,761	894,435	118,415
Decrease in unrealized appreciation on investments	<u>0</u>	<u>(695,126)</u>	<u>(90,464)</u>
Total income tax expense	<u>\$ 13,761</u>	<u>\$ 199,309</u>	<u>\$ 27,951</u>

The above tax expense consists of the following:

	2003	2002	2001
Current	\$ 13,761	\$ 894,435	\$ 118,415
Deferred -- Federal	<u>0</u>	<u>(695,126)</u>	<u>(90,464)</u>
Total income tax expense	<u>\$ 13,761</u>	<u>\$ 199,309</u>	<u>\$ 27,951</u>

The Company's net deferred tax liability at December 31, 2003 and 2002 consists of the following:

	2003	2002
Unrealized appreciation on investments	\$ 844,918	\$ 844,918
Net operating and capital loss carryforward	<u>(175,574)</u>	<u>(175,574)</u>
Net deferred income tax liability	<u>\$ 669,344</u>	<u>\$ 669,344</u>

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, we signed a 10-year lease for office space which expired on July 31, 2003. On April 17, 2003, we signed a seven-year sublease for office space at 111 West 57th Street in New York City to replace the expired lease. Total rent expense was \$200,711 for 2003. Future minimum sublease payments in each of the following years are: 2004 -- \$134,816; 2005 -- \$138,187; 2006 -- \$141,641; 2007 -- \$145,182; 2008 -- \$148,811; and thereafter for the remaining term -- \$203,571.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

On November 19, 2001, we established an asset account line of credit. The asset account line of credit is secured by government and government agency securities. Under the asset account line of credit, we may borrow up to 95 percent of the current value of the government and government agency securities with which we secure the line. Our available line of credit at December 31, 2003, was \$23,572,275. Our outstanding balance under the asset account line of credit at both December 31, 2002, and December 31, 2003, was \$0. The asset account line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

NOTE 9. SUBSEQUENT EVENTS

During 2004, we have made three follow-on investments totaling \$688,401 and one new investment of \$150,000 in privately held tiny technology companies.

In January 2004, we sold our investment in the preferred stock of NeoPhotonics, Inc., which had been valued at \$0, for \$10. We realized a loss of \$915,108 on the transaction.

On February 17, 2004, we filed a registration statement with the Securities and Exchange Commission on Form N-2 with respect to 3,000,000 shares of our Common Stock. After the effective date, the Common Stock may be sold at prices and on terms to be set forth in one or more supplements to the prospectus from time to time.

NOTE 10. SELECTED QUARTERLY DATA (UNAUDITED)

	2003			
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Total investment income	\$ 64,676	\$ 50,564	\$ 30,612	\$ 21,933
Net operating loss	\$ 584,460	\$ 726,989	\$ 572,346	\$ 679,947
Net (decrease) in net assets resulting from operations	\$(1,215,127)	\$(544,709)	\$(1,270,298)	\$ (175,136)
Net (decrease) in net assets resulting from operations per outstanding share	\$ (0.11)	\$ (0.05)	\$ (0.11)	\$ (0.01)

	2002			
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Total investment income	\$ 59,462	\$ 60,368	\$ 77,413	\$ 56,218
Net operating loss	\$ 556,233	\$654,718	\$479,433	\$ 180,704
Net (decrease) increase in net assets resulting from operations	\$(1,036,934)	\$434,289	\$660,988	\$(2,780,537)
Net (decrease) increase in net assets resulting from operations per outstanding share	\$ (0.12)	\$ 0.05	\$ 0.06	\$ (0.24)

FINANCIAL HIGHLIGHTS

Per share operating performance
for a share outstanding throughout the year :*

	<u>Year Ended</u> <u>December 31, 2003</u>	<u>Year Ended</u> <u>December 31, 2002</u>	<u>Year Ended</u> <u>December 31, 2001</u>	<u>Year Ended</u> <u>December 31, 2000</u>	<u>Year Ended</u> <u>December 31, 1999</u>
Net asset value, beginning of year	\$ 2.37	\$ 2.75	\$ 3.51	\$ 5.80	\$ 2.13
Net operating (loss) income	(0.22)	(0.19)	(0.06)	0.37	(1.04)
Net realized (loss) gain on investments	(0.09)	0.24	0.14	2.09	0.93
Net increase (decrease) in unrealized appreciation (depreciation) as a result of sales	0.09	0.13	0.45	(2.35)	(0.46)
Net (decrease) increase in unrealized appreciation (depreciation) on investments held	<u>(0.06)</u>	<u>(0.46)</u>	<u>(1.30)</u>	<u>(1.82)</u>	<u>4.58</u>
Total from investment operations	(0.28)	(0.28)	(0.77)	(1.71)	4.01
Net decrease as a result of cash dividend	0.00	0.00	0.00	(0.02)	(0.35)
Net decrease as a result of deemed dividend	<u>0.00</u>	<u>0.00</u>	<u>(0.03)</u>	<u>(0.62)</u>	<u>0.00</u>
Total distributions	0.00	0.00	(0.03)	(0.64)	(0.35)
Net increase (decrease) from capital stock transactions	<u>0.86</u>	<u>(0.10)</u>	<u>0.04</u>	<u>0.06</u>	<u>0.01</u>
Net asset value, end of year**	<u>\$ 2.95</u>	<u>\$ 2.37</u>	<u>\$ 2.75</u>	<u>\$ 3.51</u>	<u>\$ 5.80</u>
Cash dividends paid per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.02	\$ 0.35
Deemed dividend per share	\$ 0.00	\$ 0.00	\$ 0.0875	\$ 1.78	\$ 0.00
Market value per share, end of year	\$ 11.53	\$ 2.46	\$ 1.90	\$ 2.4375	\$ 11.50
Total income tax liability per share	\$ 0.06	\$ 0.15	\$ 0.18	\$ 0.78	\$ 0.16
Ratio of expenses to average net assets	9.5 %	8.3 %	3.45 %	(6.21) %	34.08 %
Ratio of net operating (loss) gain to average net assets	(8.9) %	(7.3) %	(1.75) %	52.7 %	(3.50) %
Investment return based on:					
Stock price	368.7 %	40.5 %	(22.1) %	(78.8) %	666.7 %
Net asset value	24.5 %	(13.8) %	(21.7) %	(39.5) %	188.7 %
Portfolio turnover	0 %	46.00 %	9.00 %	20.56 %	53.54 %
Net assets, end of year	\$ 40,682,738	\$ 27,256,046	\$ 24,334,770	\$ 31,833,475	\$ 53,634,805
Number of shares outstanding	13,798,845	11,498,845	8,864,231	9,064,231	9,240,831

*Based on average shares outstanding.

**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, we appointed the accounting firm of PricewaterhouseCoopers LLP as our independent accountants 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 our Audit Committee and was subject to ratification by our stockholders.

In connection with our 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 our financial statements 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.

We 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 our financial statements.

We 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.

Item 9a. Controls and Procedures

As of the end of the period covered by this report, our chief executive officer and chief financial officer conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them of any material information relating to us that is required to be disclosed by us in the reports it files or submits under the Securities Exchange Act of 1934.

There have not been any significant changes in our 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 III

Item 10. Directors and Executive Officers of the Company

The information set forth under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for Annual Meeting of Shareholders to be held May 12, 2004, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 on or about March 15, 2004 (the "2004 Proxy Statement") is herein incorporated by reference.

The Board of Directors has determined that Dugald A. Fletcher is the "Audit Committee Financial Expert" serving on our Audit Committee. Mr. Fletcher is independent as defined under Section 2(a)19 of the Investment Company Act of 1940.

Item 11. Executive Compensation

The information set forth under the captions "Summary Compensation Table" and "Compensation of Directors" in the 2004 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" in the 2004 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, 2003.

Item 14. Principal Accountant Fees and Services

The information set forth under the captions "Audit Committee Report," "Audit Committee Pre-Approval Policy," "Audit Fees" and "Tax Fees" in the 2004 Proxy Statement is herein incorporated by reference.

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, 2003 and 2002;
- Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001;
- Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001;
- Consolidated Statements of Changes in Net Assets for the years ended December 31, 2003, 2002 and 2001;
- Consolidated Schedule of Investments as of December 31, 2003;
- Footnote to Consolidated Schedule of Investments;
- Notes to Consolidated Financial Statements; and
- Selected Per Share Data and Ratios for the years ended December 31, 2003, 2002, 2001, 2000 and 1999.

(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 December 24, 2003.

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.
- 31.01* Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.02* Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01* Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.02* Certification of 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 filed during the quarter ended December 31, 2003

We filed a report on Form 8-K on October 16, 2003, concerning NAV at September 30, 2003.

We filed a report on Form 8-K on December 24, 2003, concerning our follow-on public offering of 2,000,000 shares of common stock at \$8.00 per share.

We filed a report on Form 8-K on December 30, 2003, concerning our follow-on public offering of 2,300,000 shares of common stock at \$8.00 per share, which includes the underwriter's exercise, in full, of the overallotment option.

*filed herewith

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 10, 2004

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.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles E. Harris</u> Charles E. Harris	Chairman of the Board and Chief Executive Officer	March 10, 2004
<u>/s/ Mel P. Melsheimer</u> Mel P. Melsheimer	President, Chief Operating Officer, Chief Financial Officer, Treasurer and Chief Compliance Officer	March 10, 2004
<u>/s/ Helene B. Shavin</u> Helene B. Shavin	Vice President and Controller	March 10, 2004
<u>/s/ C. Wayne Bardin</u> C. Wayne Bardin	Director	March 10, 2004
<u>/s/ Phillip A. Bauman</u> Phillip A. Bauman	Director	March 10, 2004

<u>/s/ G. Morgan Browne</u> G. Morgan Browne	Director	March 10, 2004
<u>/s/ Dugald A. Fletcher</u> Dugald A. Fletcher	Director	March 10, 2004
<u>/s/ Dr. Kelly S. Kirkpatrick</u> Dr. Kelly S. Kirkpatrick	Director	March 10, 2004
<u>/s/ Glenn E. Mayer</u> Glenn E. Mayer	Director	March 10, 2004
<u>/s/ Mark A. Parsells</u> Mark A. Parsells	Director	March 10, 2004
<u>/s/ Lori D. Pressman</u> Lori D. Pressman	Director	March 10, 2004
<u>/s/ Charles E. Ramsey</u> Charles E. Ramsey	Director	March 10, 2004

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

- 11.0 Computation of Per Share Earnings is set forth under Item 8.
- 31.01 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.02 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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