

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, 1997 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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

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

(Address of Principal Executive Offices) (Zip Code)

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

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

None

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

Common Stock \$.01 par value

(Title of class)

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

Yes 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. []

The aggregate market value of the Common Stock held by non-affiliates of Registrant as of March 13, 1998 was \$21,434,648 based on the last sale price as quoted by Nasdaq National Market on such date (only officers and directors are considered affiliates for this calculation).

As of March 13, 1998, the registrant had 10,692,971 shares of common stock, par value \$.01 per share, outstanding.

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PART I

Item 1. Business

Harris & Harris Group, Inc. (the "Registrant" or "Company") is a venture capital investment company, operating as a Business Development Company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). The Company's objective is to achieve long-term capital appreciation, rather than current income, from its investments. The Company has invested a substantial portion of its assets in private development stage or start-up companies and in the development of new technologies in a broad range of industry segments. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no history of operations. The Company may also invest, to the extent permitted under the 1940 Act, in publicly traded securities, including high risk securities as well as investment grade securities. The Company may participate in expansion financing and leveraged buyout financing of more mature operating companies as well as other investments. As a venture capital company, the Company invests in and provides managerial assistance to its private investees which, in its opinion, have significant potential for growth. There is no assurance that the Company's investment objective will be achieved.

The Company was incorporated under the laws of the State of New York in August 1981. Prior to September 30, 1992, the Company had a class of securities registered, and filed under the reporting requirements, of the Securities Exchange Act of 1934 (the "1934 Act") as an operating company. On that date the Company commenced operations as a closed-end, non-diversified investment company under the 1940 Act. On July 26, 1995, the Company elected to become a BDC subject to the provisions of Sections 55 through 65 of the 1940 Act. As a BDC, the Company operates as an internally managed investment company whereby its officers and employees, under the general supervision of its Board of Directors, conduct its operations.

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification of the Company, beginning in 1998, as a

RIC under Sub-Chapter M of the Code. As a RIC, the Company annually must distribute at least 90 percent of its investment company taxable income and may either distribute or retain its taxable net capital gains from investments. (However, any net capital gains not distributed could be subject to a corporate level income tax.) There can be no assurance that the Company will qualify as a RIC or that if it does qualify that it will continue to qualify. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

Venture Capital Investments

The Company has invested a substantial portion of its assets in private development stage or start-up companies. The Company may initially own 100 percent of the securities of a start-up investment for a period of time and may control such company for a substantial period. In connection with its venture capital investments, the Company may be involved in recruiting

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management, formulating operating strategies, product development, marketing and advertising, assisting in financial plans, as well as providing management in the initial start-up stages and establishing corporate goals. The Company may assist in raising additional capital for such companies from other potential investors and may subordinate its own investment to that of other investors. The Company may also find it necessary or appropriate to provide additional capital of its own. The Company may introduce such companies to potential joint-venture partners, suppliers and customers. In addition, the Company may assist in establishing relationships with investment bankers and other professionals. The Company may also assist with mergers and acquisitions. The Company may derive income from such companies for the performance of any of the above services. Because of the speculative nature of these investments and the lack of any market for such securities, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear likely to become successful, but never realize their potential. The Company has in the past and will continue in the future to seek investments which offer the potential for significantly higher returns but which involve a significantly greater degree of risk than other investments.

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

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

In addition to the information disclosed above, please see "Item 8. Financial Statements and Supplementary Data."

Intellectual Property

The Company believes there is a role for organizations like itself that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property increasingly seek the rewards of entrepreneurial commercialization of their inventions, particularly as governmental, philanthropic and industrial funding for research has become harder to obtain. The Company believes that several factors combine to give it a high value-added role to play in the commercialization of technology: its experience in organizing and developing successful new companies; its willingness to invest its own capital at the highest risk, seed stage; its

access to high-grade institutional sources of intellectual property; its experience in mergers, acquisitions and divestitures; its access to and knowledge of the capital markets; and its willingness to do as much of the early work as it is qualified to do.

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The Company invests principally in securities issued by companies involved in: 1) research and development of a technology and/or obtaining licensing rights to intellectual property or patents; 2) outright acquisition of intellectual property or patents; and 3) formation and funding of companies or joint ventures to commercialize intellectual property. Income from the Company's investments in intellectual property or its development may take the form of participation in licensing or royalty income or some other form of remuneration. At some point during the commercialization of a technology, the Company's investment may be transformed into ownership of securities of a development stage or start-up company as discussed above. Investing in intellectual property is highly risky.

Illiquidity of Investments

Many of the Company's investments consist of securities acquired directly from the issuer in private transactions. They may be subject to restrictions on resale or otherwise be illiquid. The Company does not anticipate that there will be any established trading market for such securities. Additionally, many of the securities that the Company may invest in will not be eligible for sale to the public without registration under the Securities Act of 1933, as amended, which could prevent or delay any sale by the Company of such investments or reduce the amount of proceeds that might otherwise be realized therefrom. Restricted securities generally sell at a price lower than similar securities not subject to restrictions on resale. Further, even if a portfolio company or investee registers its securities and becomes a reporting company under the 1934 Act, the Company may be considered an insider by virtue of its board representation and would be restricted in sales of such company's securities.

Managerial Assistance

The Company generally is required by the 1940 Act to make significant managerial assistance available with respect to investee companies that the Company treats as qualifying assets for purposes of the 70 percent test (see "Regulation"). "Making available significant managerial assistance" as defined in the 1940 Act with respect to a business development company such as the Company means (a) any arrangement whereby a business development company, through its directors, officers, employees or general partners, offers to provide, and if accepted, does so provide, significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company; or (b) the exercise by a business development company of a controlling influence over the management or policies of a portfolio company by a business development company acting individually or as a part of a group acting together which controls such portfolio company. The Company believes that providing managerial assistance to its investees is critical to its business development activities. The nature, timing and amount of managerial assistance provided by the Company vary depending upon the particular requirements of each investee company.

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The Company may be involved with its investees in recruiting management, product planning, marketing and advertising and the development of financial plans, operating strategies and corporate goals. In this connection, the Company may assist clients in developing and utilizing accounting procedures to efficiently and accurately record transactions in books of account, which will facilitate asset and cost control and the ready determination of results of operations. The Company also seeks capital for its investees from other potential investors and occasionally subordinates its own investment to those of other investors. The Company may introduce its investees to potential suppliers, customers and joint venture partners and assists its investees in establishing relationships with commercial and investment bankers and other professionals, including management consultants, recruiters, legal counsel and independent accountants. The Company also assists with joint ventures,

acquisitions and mergers.

In connection with its managerial assistance, the Company may be represented by one or more of its officers or directors on the board of directors of an investee. As an investment matures and the investee develops management depth and experience, the Company's role will become progressively less active. However, when the Company owns or acquires a substantial proportion of a more mature investee company's equity, the Company may remain active in and may initiate planning of major transactions by the investee. The Company typically seeks to assist each investee company in establishing its own independent and effective board of directors and management.

Need for Follow-On Investments

Following its initial investment in investees, the Company has made and anticipates that it will continue to make additional investments in such investees as "follow-on" investments, in order to increase its investment in an investee, and may exercise warrants, options or convertible securities that were acquired in the original financing. Such follow-on investments may be made for a variety of reasons including: 1) to increase the Company's exposure to an investee, 2) to acquire securities issued as a result of exercising convertible securities that were purchased in the original financing, 3) to preserve the Company's proportionate ownership in a subsequent financing, or 4) to attempt to preserve or enhance the value of the Company's investment. There can be no assurance that the Company will make follow-on investments or have sufficient funds to make such investments; the Company will have the discretion to make any follow-on investments as it determines, subject to the availability of capital resources. The failure to make such follow-on investments may, in certain circumstances, jeopardize the continued viability of an investee and the Company's initial investment, or may result in a missed opportunity for the Company to increase its participation in a successful operation.

Competition

Numerous companies and individuals are engaged in the venture capital business and such business is intensely competitive. Most of the competitors have significantly greater experience, resources and managerial capabilities than the Company and are therefore in a better position than the Company to obtain access to attractive venture capital investments.

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Regulation

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

Generally, to be eligible to elect BDC status, a company must primarily engage in the business of furnishing capital and managerial expertise 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 1934 Act; (iii) operate for the purpose of investing in the securities of certain types of portfolio companies, namely, immature 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; (v) have a majority of "disinterested" directors (as defined in the 1940 Act) and (vi) 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

25 percent of the outstanding voting securities of the investee).

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

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

The Company may sell its securities at a price that is below the prevailing net asset value per share only after a majority of its disinterested directors has determined that such sale would be in the best interest of the Company and its stockholders and upon the approval by the holders of a majority of its outstanding voting securities, including a majority of the voting securities held by non-affiliated persons. If the offering of the securities is underwritten, a majority of the disinterested directors must determine in good faith that the price of the securities being sold is not less than a price which closely approximates market value of the securities, less any distribution discount or commission. As defined by the 1940 Act, the term "majority of the Company's outstanding voting securities" means the vote of (i) 67 percent or more of the Company's Common Stock present at the meeting, if the holders of more than 50 percent of the outstanding Common Stock are present or represented by proxy or (ii) more than 50 percent of the Company's outstanding Common Stock, whichever is less.

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

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification of the Company, beginning in 1998, as a RIC under Sub-Chapter M of the Code. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

Employees

The Company currently employs five full-time employees and one part-time employee.

Item 2. Properties

The Company maintains its offices at One Rockefeller Plaza, Suite 1430, New York, New York 10020, where it leases approximately 4,700 square feet of office space pursuant to a lease agreement expiring in 2003. A portion of this space was sublet in 1997 to an early-stage company in which the Company had an equity interest. See Note 7 to the Financial Statements and Schedules contained in "Item 8. Financial Statements and Supplementary Data."

Item 3. Legal Proceedings

None.

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

The Company did not submit any matters to a vote of its shareholders during the fourth quarter of the 1997 fiscal year.

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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. Diane Ajjan) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Market Prices

The Company's common stock is traded on the Nasdaq National Market under the symbol "HHGP." 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 the National Association of Securities Dealers, Inc. The quarterly stock prices quoted represent interdealer quotations and do not include markups, markdowns, or commissions.

<TABLE>

<S> 1997 Quarter Ending	<C> Low	<C> High
March 31	\$3.3750	\$5.1250
June 30	\$3.5000	\$4.8125
September 30	\$2.5000	\$3.7500
December 31	\$2.5000	\$4.0000
1996 Quarter Ending	Low	High
March 31	\$5.6250	\$7.8750
June 30	\$5.5000	\$7.3750
September 30	\$4.0000	\$5.8750
December 31	\$3.6250	\$4.8750

</TABLE>

The Company has not paid dividends since 1991. On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification of the Company beginning in 1998 as a RIC under Sub-Chapter M of the Code. There can be no assurance that the Company will qualify as a RIC or that, if it does qualify, it will continue to qualify. To initially qualify as a RIC, the Company must, among other things, pay a dividend to shareholders equal to the Company's cumulative realized earnings and profits ("E&P") from its pre-RIC taxable years. The Company currently estimates that its E&P as of December 31, 1997 was approximately \$7.8 million and it currently intends to distribute such E&P prior to year-end 1998 if it receives SEC certification. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

Recent Sales of Unregistered Securities

The Company has not sold registered shares for the years ended December 31, 1997 and 1996. See Note 4 to the Financial Statements and Schedules contained in "Item 8. Financial Statements and Supplementary Data."

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Shareholders

As of March 13, 1998, there were approximately 160 holders of record of the Company's common stock which, the Company has been informed, hold the Company's common stock for approximately 2,000 beneficial owners.

Item 6. Selected Financial Data

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

<TABLE>
<CAPTION>

BALANCE SHEET DATA
Financial Position as of December 31:

<S>	<C>	<C>	<C>	<C>	<C>
	1997	1996	1995	1994	1993
Total assets	\$ 39,273,784	\$ 38,555,290	\$ 37,524,555	\$ 32,044,073	\$ 34,534,724
Liabilities	\$ 5,618,850	\$ 2,622,687	\$ 962,646	\$ 733,271	\$ 1,785,427
Net asset value	\$ 33,654,934	\$ 35,932,603	\$ 36,561,909	\$ 31,310,802	\$ 32,749,297
Net asset value per share	\$ 3.15	\$ 3.44	\$ 3.54	\$ 3.43	\$ 3.66
Shares outstanding	10,692,971	10,442,682	10,333,902	9,136,747	8,944,828

Operating Data for year ended December 31:

	1997	1996	1995	1994	1993
Investment income	\$ 614,046	\$ 1,013,417	\$ 1,109,517	\$ 820,276	\$ 453,950
Net operating loss	(1,498,141)	(1,291,065)	(1,099,409)	(2,278,882)	(1,614,625)
Net realized (loss) gain on investments	(2,079,677)	(2,465,175)	1,371,349	96,856	23,590,570
Net realized (loss) income	(3,577,818)	(3,756,240)	271,940	(2,182,026)	21,975,945
Net increase (decrease) in unrealized appreciation on investments	969,243	2,967,248	158,219	(886,040)	(13,083,344)
Net (decrease) increase in net assets resulting from operations	(2,608,575)	(788,992)	430,159	(3,068,066)	8,892,601
(Decrease) increase in net assets resulting from operations per outstanding share	\$ (0.24)	\$ (0.08)	\$ 0.04	\$ (0.34)	\$ 1.03

</TABLE>

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

Statement of Operations

The Company accounts for its operations under Generally Accepted

Accounting Principles for investment companies. On this basis, the principal measure of its financial performance is captioned "Net (decrease) increase in net assets from operations," which is the sum of three elements. The first element is "Net operating loss," which is the difference between the Company's income from interest, dividends, and fees and its operating expenses, net of applicable income tax benefit. The second element is "Net realized (loss) gain on investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost, net of applicable income tax provisions (benefits). These two elements are combined in the Company's financial statements and reported as "Net realized (loss) income." The third element, "Net increase (decrease) in unrealized appreciation on investments," is the net change in the fair value of the Company's investment portfolio, net of increase (decrease) in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

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

Financial Condition

The Company's total assets and net assets were, respectively, \$39,273,784 and \$33,654,934 at December 31, 1997, versus \$38,555,290 and \$35,932,603 at December 31, 1996. Net asset value per share was \$3.15 at December 31, 1997, versus \$3.44 at December 31, 1996. The Company's shares outstanding as of December 31, 1997 were 10,692,971, versus 10,442,682 at December 31, 1996.

The Company's financial condition is dependent on the success of its investments. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth or have no history of operations. At December 31, 1997, approximately 34 percent of the Company's \$39.3 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was approximately \$2.5 million before taxes. At December 31, 1996, approximately 49 percent of the Company's \$38.6 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was approximately \$5.0 million.

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

<TABLE>

<S>	<C> December 31, 1997	<C> December 31, 1996
Investments, at cost	\$30,500,498	\$28,981,093
Unrealized appreciation	8,158,732	6,667,589
	-----	-----
Investments, at fair value	\$38,659,230	\$35,648,682
	=====	=====

</TABLE>

The accumulated unrealized appreciation on investments net of deferred taxes is \$5,340,834 at December 31, 1997, versus \$4,371,591 at December 31, 1996.

Following an initial investment in a private company, the Company may make additional investments in such investee in order to: (1) increase its ownership percentage; (2) to exercise warrants or options that were acquired in a prior financing; (3) to preserve the Company's proportionate ownership in a subsequent financing; or (4) attempt to preserve or enhance the value of the Company's investment. Such additional investments are referred to as "follow-on" investments. There can be no assurance that the Company will make follow-on investments or have sufficient funds to make additional investments. The failure to make such follow-on investments could jeopardize the viability of the investee company and the Company's investment or could result in a missed opportunity for the Company to participate to a greater extent in an investee's successful operations. The Company attempts to maintain adequate liquid capital to make follow-on investments in its private investee portfolio companies. The Company may elect not to make a follow-on

investment either because it does not want to increase its concentration of risk or because it prefers other opportunities, even though the follow-on investment opportunity appears attractive.

The following table is a summary of the cash investments made by the Company in its private placement portfolio during the year ended December 31, 1997:

<TABLE>

<S>	<C>
New Investments:	Amount
MedLogic Global Corporation	\$ 128,990
Sub-total	\$ 128,990

Follow-on Investments:	
BioSupplyNet, Inc.	\$ 200,000
Highline Offshore Advisors, LLP	500,000
MultiTarget, Inc.	97,387
NBX Corporation	1,190,002
Sub-total	\$ 1,987,389

Loans:	
BioSupplyNet, Inc.	\$ 50,000
Gel Sciences, Inc.	316,000
Harber Brothers Productions, Inc.	250,000
NeuroMetrix, Inc.*	1,100,000
nFX Corporation	220,000
Purespeech, Inc.	243,980
Sub-total	\$ 2,179,980

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Exercise of Warrants Held:	
NeuroMetrix, Inc.	\$ 200,000
Princeton Video Image, Inc.	15,075
Sub-total	\$ 215,075
Total	\$ 4,511,434

<FN>

*On February 27, 1998, the Company converted its \$1,100,000 NeuroMetrix, Inc. Convertible Note into 229,620 shares of Series C-2 Preferred Stock, as part of a \$4 million financing completed by NeuroMetrix, Inc.

</FN>

</TABLE>

Results of Operations

Investment Income and Expenses:

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

The Company had interest income of \$490,807 in 1997, \$803,819 in 1996 and \$999,869 in 1995. The decrease is a result of a decline in the balance of the Company's fixed-income portfolio to pay operating expenses and to purchase non-income producing private portfolio investments. The Company also received consulting and administrative fees which totaled \$29,870 in 1997, \$68,185 in 1996 and \$88,209 in 1995.

Operating expenses were \$3,045,290 in 1997, \$2,985,316 in 1996 and \$2,806,141 in 1995. The increase from 1996 to 1997 is primarily due to: the

accrual of \$423,808 for the Company's profit-sharing plan which has not been paid out; restructuring expenses of \$100,000 incurred by the Company as a result of researching the conversion to RIC status; both offset by a decrease in overall expenses as a result of the Company's effort to cut expenses. The increase from 1995 to 1996 is primarily owed to additional consulting fees incurred in 1996 related to prospective private portfolio investments. Most of the Company's operating expenses are related to employee and director compensation, office and rent expenses and consulting and professional fees (primarily legal and accounting fees).

Net operating losses before taxes were \$2,431,244 in 1997, \$1,971,899 in 1996 and \$1,696,624 in 1995.

The Company has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments, rather than investment income, to defray a significant portion of its operating expenses. Because such sales cannot be predicted with certainty, the Company attempts to maintain adequate working capital to provide for fiscal periods when there are no such sales.

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Realized Gains and Losses on Sales of Portfolio Securities:

During the three years ended December 31, 1997, 1996 and 1995, the Company sold various investments, realizing a net loss of \$3,199,502, \$3,792,576 and a net gain of \$2,109,768, respectively.

During 1997, the Company realized losses on the sale of its investments in nFX Corporation in the amount of \$2,631,720, Harber Brothers Productions, Inc. of \$1,205,000, Gel Sciences, Inc. of \$633,028, Dynecology, Inc. of \$99,900 and Micracor Corporation of \$66,444. These losses were offset by gains in the sale of Highline Capital Partners of \$750,000 and various publicly traded securities of \$686,590.

During 1996, the Company realized a loss on the sale of its equity interest in Sonex International Corporation of \$2,579,000. However, because the investment had been written off in 1994, the loss did not affect earnings in 1996. Also during 1996, the Company sold and realized a loss on the sale of its equity interest in Micracor Corporation of \$999,993 and net losses on sales of various publicly held securities of \$213,583.

During 1995, the Company sold various publicly traded securities, realizing a net pre-tax capital gain of \$2,109,768.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments before taxes increased by \$1,491,143 during the year ended December 31, 1997, from \$6,667,589 to \$8,158,732, owing primarily to increased valuations on NBX Corporation, Nanophase Technologies Corporation and PHZ Capital Partners, L.P. These gains were offset primarily by decreased valuations in PureSpeech, Inc. and Princeton Video Image, Inc.

Net unrealized appreciation on investments before taxes increased by \$4,564,996 during the year ended December 31, 1996, from \$2,102,593 to \$6,667,589, owing primarily to increased valuations for Gel Sciences, Inc., Nanophase Technologies Corporation, PHZ Capital Partners, L.P., Princeton Video Image, Inc. and Biofield Corporation; offset primarily by a decreased valuation of nFX Corporation.

Net unrealized appreciation on investments before taxes increased by \$243,414 during the year ended December 31, 1995, from \$1,859,179 to \$2,102,593, owing primarily to increased valuations for CORDEX Petroleum, Inc., Questech Corporation, Alliance Pharmaceutical Corporation and Magellan Health Services, Inc.; offset primarily by a decreased valuation of Sonex International Corporation.

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The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at December 31, 1997 of \$21,693,067 (net of \$4,000,000 drawn from the J.P. Morgan line of credit), versus \$19,296,591 at December 31, 1996 and \$23,833,891 at December 31, 1995. Included in marketable securities are the Company's holdings in Nanophase Technologies Corporation of \$6,854,660 and Princeton Video Image, Inc. of \$1,064,895. Both holdings are subject to lock-up agreements and are valued at December 31, 1997 at discounts from market value: a 26 percent discount in the case of Nanophase Technologies Corporation and a 24 percent discount in the case of Princeton Video Image, Inc.

As of December 31, 1997, the Company had a \$4,000,000 line of credit in place with J.P. Morgan, of which the Company had borrowed \$4,000,000. Management believes that its cash, receivables and marketable securities provide the Company with sufficient liquidity for its operations.

Recent Developments

The Company is currently a corporation taxable under Sub-Chapter C of the Code (a "C Corporation"). On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification of the Company (as of January 1, 1998) as a RIC under Sub-Chapter M of the Code. In order to qualify as a RIC, the Company must, in general, (1) annually derive at least 90 percent of its gross income from dividends, interest and gains from the sale of securities; (2) quarterly meet certain investment diversification requirements; and (3) annually distribute at least 90 percent of its investment company taxable income as a dividend. In addition to the requirement that the Company must annually distribute at least 90 percent of its investment company taxable income, the Company may either distribute or retain its taxable net capital gains from investments, but any net capital gains not distributed could be subject to corporate level tax. Further, the Company could be subject to a 4 percent excise tax (and in some cases, corporate level income tax) if it fails to distribute 98 percent of its annual taxable income.

Because of the specialized nature of its investment portfolio, the Company can satisfy the diversification requirements under Sub-Chapter M of the Code only if it receives a certification from the SEC that it is "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." In January 1998, the Company requested such a certification. While the Company believes that it is likely the SEC will grant the certification, there is no guarantee that the SEC in fact will take that action. Even if the certification is issued, there can be no assurance that the Company will qualify as a RIC or that, if it does qualify, it will continue to qualify. In particular, continued qualification as a RIC requires the Company to satisfy certain portfolio diversification requirements in future years. The Company's ability to satisfy those requirements may not be controllable by the Company.

The Company incurred ordinary and capital losses during its C Corporation taxable years that remain available for use and may be carried forward to its 1998 and subsequent taxable years. Ordinarily, a corporation that elects to

qualify as a RIC may not use its loss carryforwards from C Corporation taxable years to offset RIC investment company taxable income or net capital gains. In addition, a 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 from sales of assets that were held by the corporation on the effective date of the election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). The Company has filed a private ruling request with the Internal Revenue Service ("IRS") asking the IRS to rule that the Company can carry forward its C Corporation losses to offset any Built-In Gains resulting from sales of its C Corporation Assets, thereby enabling the Company to retain some or all of the proceeds from such sales without disqualifying itself as a RIC or incurring corporate level income tax. In addition, because a RIC is not permitted to have, as of the close of any RIC taxable year, E&P accumulated during any C Corporation taxable year, the Company has also requested a ruling that its sale of C Corporation Assets with Built-In Gains during RIC

taxable years will not generate C Corporation E&P. Although there is no guarantee that the IRS will rule favorably on the Company's request for rulings, the management of the Company believes that favorable rulings are likely.

The Company estimates that cumulative E&P as of December 31, 1997 were approximately \$7.8 million. It intends to distribute such E&P prior to December 31, 1998 if it receives the SEC certification described above. As of December 31, 1997, the Company has sufficient current assets to make such distribution without jeopardizing its ability to pay its expenses as they may become due.

If necessary for liquidity purposes, in lieu of distributing its taxable net capital gains, the Company may retain such net capital gains and elect to be deemed to have made a distribution of the gains, or part thereof, to the shareholders under the "designated undistributed capital gain" rules of section 852(b)(3) of the Code. In such a case, the Company would have to pay a 35 percent corporate level income tax on such "designated undistributed capital gain," but it would not have to distribute the excess of the retained "designated undistributed capital gain" over the amount of tax thereon in order to maintain its RIC status.

Tax Consequences of Net Capital Gains

The following simplified examples illustrate the tax treatment under Sub-Chapter M of the Code for the Company and its shareholders with regard to three possible alternatives, assuming a net long-term capital gain of \$1.00 per share, consisting entirely of sales of non-real property assets held for more than 18 months.

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

1. No taxation at the Company level.
2. Shareholders receive a \$1.00 per share dividend and pay a maximum tax of 20 percent* or \$.20 per share, retaining \$.80 per share.

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

1. The Company pays a corporate level 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. Shareholders increase their cost basis in their stock by \$.65 per share. They pay a 20 percent* capital gains tax on 100 percent of the undistributed gain of \$1.00 per share or \$.20 per share in tax. Offsetting this tax, shareholders receive a tax credit equal to 35 percent of the undistributed gain or \$.35 per share.

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

1. The Company pays a corporate level income tax of 35 percent on the retained gain or \$.35 per share plus an excise tax of 4 percent of \$.98 per share, or about \$.04 per share.
2. There is no tax consequence at the shareholder level.

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

Risks

There are significant risks inherent in the Company's venture capital business. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case

with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Company has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. The Company has in the past relied and continues to rely to a large extent upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses.

Risks Relating to the Year 2000 Issue

The Company believes that the "Year 2000" problem is not material to the Company. Many computer software systems in use today cannot recognize the Year 2000 and may revert to 1900 or some other date because of the way in which dates were encoded and calculated. The Company could be adversely affected if its computer system or those of its service providers do not properly process and calculate date-related information and data on and after January 1, 2000. The Company has been actively working on necessary changes to its computer systems to prepare for the Year 2000 and intends to obtain reasonable assurances from its service providers that they are taking comparable steps with respect to their computer systems. However, the steps the Company is taking and intends to take does not guarantee complete success or eliminate the possibility that interaction with outside computer systems may have an adverse impact on the Company.

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. Other factors that could cause actual results to differ materially include the uncertainties of economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements included herein are reasonable, any of the assumptions could be inaccurate and therefore, there can be no assurance that the forward-looking statements included or incorporated by reference herein will prove to be accurate. Therefore, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

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

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

Documents	Page
Report of Independent Public Accountants.	18

Financial Statements

Statements of Assets and Liabilities as of December 31, 1997 and 1996	19
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Statements of Operations for the years ended December 31, 1997, 1996 and 1995	20
Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995.	21
Statements of Changes in Net Assets for the years ended December 31, 1997, 1996 and 1995.	22
Schedule of Investments as of December 31, 1997	23-25
Footnote to Schedule of Investments	26-29
Notes to Financial Statements	30-35
Selected Per Share Data and Ratios for the years ended December 31, 1997, 1996, 1995 and 1994 and 1993.	36

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Harris & Harris Group, Inc.:

We have audited the accompanying statements of assets and liabilities of Harris & Harris Group, Inc. (a New York corporation) as of December 31, 1997 and 1996, including the schedule of investments, as of December 31, 1997, and the related statements of operations, cash flows and changes in net assets for the three years ended December 31, 1997, and the selected per share data and ratios for each of the five years ended December 31, 1997. These financial statements and selected per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and selected per share data and ratios based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1997 and 1996, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 2, the financial statements include securities valued at \$13,222,857 (39.3 percent of net assets), whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. as of December 31, 1997 and 1996, the results of its operations, its cash flows and the changes in its net assets for the three years ended December 31, 1997, and the selected per share data and ratios for each of the five years ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

<TABLE>
<CAPTION>

STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

<S>	<C>	<C>
	December 31, 1997	December 31, 1996
Investments, at value (See accompanying schedule of investments and notes)	\$ 38,659,230	\$ 35,648,682
Cash and cash equivalents	145,588	155,440
Interest receivable	111,106	198,342
Taxes receivable (Note 6)	0	2,119,492
Prepaid expenses	85,126	81,501
Other assets	272,734	351,833
	-----	-----
Total assets	\$ 39,273,784	\$ 38,555,290
	=====	=====

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	\$ 899,491	\$ 374,326
Deferred rent	51,662	60,914
Deferred income tax liability (Note 6)	667,697	2,187,447
Note Payable (Note 7)	4,000,000	0
	-----	-----
Total liabilities	5,618,850	2,622,687
Commitments and contingencies (Note 7)	-----	-----
Net assets	\$ 33,654,934	\$ 35,932,603
	=====	=====

Net assets are comprised of:

Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0
Common stock, \$0.01 par value, 25,000,000 shares authorized; 10,692,971 issued and outstanding at 12/31/97 and 10,442,682 issued and outstanding at 12/31/96	106,930	104,427
Additional paid in capital	16,178,979	15,850,576
Accumulated net realized income	12,028,191	15,606,009
Accumulated unrealized appreciation of investments, net of deferred tax liability of \$2,817,898 at 12/31/97 and \$2,295,998 at 12/31/96	5,340,834	4,371,591
	-----	-----
Net assets	\$ 33,654,934	\$ 35,932,603
	=====	=====
Shares outstanding	10,692,971	10,442,682
	-----	-----
Net asset value per outstanding share	\$ 3.15	\$ 3.44
	=====	=====

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

</TABLE>

<TABLE>
<CAPTION>

STATEMENTS OF OPERATIONS

<S>	<C>	<C>	<C>
	Year Ended	Year Ended	Year Ended
	December 31, 1997	December 31, 1996	December 31, 1995
Investment income:			
Interest from:			

Fixed-income securities	\$ 490,807	\$ 803,819	\$ 999,869
Affiliated companies	40,000	40,779	11,222
Dividend income--unaffiliated companies.	0	8,024	8,436
Consulting and administrative fees . .	29,870	68,185	88,209
Other income.	53,369	92,610	1,781
	-----	-----	-----
Total investment income	614,046	1,013,417	1,109,517

Expenses:			
Salaries and benefits . .	1,931,065	1,524,826	1,560,132
Administration and operations	392,114	474,537	440,605
Professional fees	327,038	675,241	461,526
Depreciation and amortization	48,968	57,426	161,876
Rent.	130,092	160,601	124,713
Directors' fees and expenses	100,496	80,702	40,836
Custodian fees.	15,517	11,983	16,453
Restructuring charges (Note 6)	100,000	0	0
	-----	-----	-----
Total expenses. . . .	3,045,290	2,985,316	2,806,141

Operating loss before income taxes	(2,431,244)	(1,971,899)	(1,696,624)
Income tax benefit (Note 6)	933,103	680,834	597,215
	-----	-----	-----
Net operating loss	(1,498,141)	(1,291,065)	(1,099,409)

Net realized (loss) gain on investments:			
Realized (loss) gain on sale of investments . .	(3,199,502)	(3,792,576)	2,109,768
	-----	-----	-----
Total realized (loss) gain	(3,199,502)	(3,792,576)	2,109,768
Income tax benefit (provision) (Note 6) . .	1,119,825	1,327,401	(738,419)
	-----	-----	-----
Net realized (loss) gain on investments.	(2,079,677)	(2,465,175)	1,371,349
Net realized (loss) income	(3,577,818)	(3,756,240)	271,940

Net increase (decrease) in unrealized appreciation on investments:			
Increase as a result of investment sales. . . .	93,999	2,525,548	337,577
Decrease as a result of investment sales. . . .	(2,892,408)	0	(562,765)
Increase on investments held.	7,297,164	4,112,413	1,002,347
Decrease on investments held.	(3,007,612)	(2,072,965)	(533,745)
	-----	-----	-----
Change in unrealized appreciation on investments	1,491,143	4,564,996	243,414
Income tax provision (Note 6).	(521,900)	(1,597,748)	(85,195)
	-----	-----	-----
Net increase in unrealized appreciation on investments.	969,243	2,967,248	158,219

Net (decrease) increase in net assets from operations:			
Total.	\$(2,608,575)	\$ (788,992)	\$ 430,159

Per outstanding share . . . \$	(0.24)	\$ (0.08)	\$ 0.04
--------------------------------	--------	-----------	---------

The accompanying notes are an integral part of these financial statements
</TABLE>

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<TABLE>
<CAPTION>

STATEMENTS OF CASH FLOWS

<S> <C> <C> <C>
 Year Ended Year Ended Year Ended
 December 31, 1997 December 31, 1996 December 31, 1995

Cash flows provided by (used in) operating activities:

Net (decrease) increase in net assets resulting from operations	\$ (2,608,575)	\$ (788,992)	\$ 430,159
Adjustments to reconcile (decrease) increase in net assets from operations to net cash (used in) provided by operating activities:			
Net realized and unrealized loss (gain) on investments	1,708,359	(772,420)	(2,353,182)
Deferred income taxes	(1,442,094)	1,636,817	241,479
Depreciation and amortization	48,968	57,426	161,876
Other	0	(10,144)	40,859
Changes in assets and liabilities:			
Receivable from brokers	0	205,789	3,835,602
Prepaid expenses	(3,625)	5,475	(21,756)
Interest receivable	87,236	102,376	(227,392)
Taxes receivable	2,119,492	(1,679,377)	1,184,567
Other assets	40,296	(103,981)	(9,372)
Accounts payable and accrued liabilities	473,363	22,197	(43,241)
Deferred rent	(9,252)	10,279	10,281
Collection on note receivable	0	0	54,664
Purchase of fixed assets	(10,169)	(35,777)	(16,409)
Net cash provided by (used in) operating activities	403,999	(1,350,332)	3,288,135

Cash (used in) provided by investing activities:

Net (purchase) sale of short-term investments and marketable securities	(155,667)	6,035,532	(3,324,957)
Investment in private placements and loans	(4,511,434)	(4,981,614)	(4,236,352)
Net cash (used in) provided by investing activities	(4,667,101)	1,053,918	(7,561,309)

Cash flows provided by financing activities:

Purchase of treasury stock	0	0	(646,430)
Proceeds from exercise of stock options	253,250	87,500	62,500
Proceeds from private placement of stock (Note 4)	0	0	5,000,001
Proceeds from note payable (Note 7)	4,000,000	0	0
Net cash provided by financing activities	4,253,250	87,500	4,416,071

Net (decrease) increase in

cash and cash equivalents:			
Cash and cash equivalents			
at beginning of the year	155,440	364,354	221,457
Cash and cash equivalents			
at end of the year . . .	145,588	155,440	364,354
	-----	-----	-----
Net (decrease) increase			
in cash and cash			
equivalents	\$ (9,852)	\$ (208,914)	\$ 142,897
	=====	=====	=====

Supplemental disclosures of			
cash flow information:			
Income taxes paid . . .	\$ 5,909	\$ 57,234	\$ 8,323

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

</TABLE>

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<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS

<S>	<C>	<C>	<C>
	Year Ended	Year Ended	Year Ended
	December 31, 1997	December 31, 1996	December 31, 1995

Changes in net assets from operations:

Net operating loss . . .	\$(1,498,141)	\$(1,291,065)	\$(1,099,409)
Net realized (loss)			
gain on investments . .	(2,079,677)	(2,465,175)	1,371,349
Net (decrease) increase			
in unrealized appreciation			
on investments as a			
result of sales . . .	(1,818,966)	1,641,606	(146,372)
Net increase in unrealized			
appreciation on investments			
held	2,788,209	1,325,642	304,591
	-----	-----	-----
Net (decrease) increase in			
net assets resulting from			
operations	(2,608,575)	(788,992)	430,159

Changes in net assets from capital stock transactions:

Purchase of stock . . .	0	0	(646,430)
Restricted stock award			
(Note 3)	0	0	110,283
Proceeds from exercise of			
stock options and warrants	253,250	87,500	62,500
Proceeds from private placement			
of common stock (Note 4)	0	0	5,000,001
Tax benefit of restricted			
stock award and common			
stock transactions . .	77,656	72,186	294,594
	-----	-----	-----
Net increase in net assets			
resulting from capital			
stock transactions . .	330,906	159,686	4,820,948

Net (decrease) increase			
in net assets	(2,277,669)	(629,306)	5,251,107

Net assets:

Beginning of the year .	35,932,603	36,561,909	31,310,802
	-----	-----	-----
End of the year	\$33,654,934	\$35,932,603	\$36,561,909
	=====	=====	=====

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

</TABLE>

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<TABLE>

<CAPTION>

SCHEDULE OF INVESTMENTS DECEMBER 31, 1997

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value		
Investments in Unaffiliated Companies (12)(13)(14) -- 11.4% of total investments					
Publicly Traded Portfolio (Common stock unless noted otherwise) -- 8.9% of total investments					
Oil and Gas Related					
	CORDEX Petroleum Inc. (1) Argentine and Chilean oil and gas exploration Class A Common Stock (C)	4,052,080	\$156,423		
Biotechnology and Healthcare Related					
	Fuisz Technologies, Ltd. (1)(4). . (C)	125,000	1,062,500		
	Guilford Pharmaceuticals (1)(4). . (C)	10,000	201,563		
	Keravision, Inc. (1)(4). (C)	60,000	384,375		
Energy Research Corporation (1)(4) -- Fuel Cell Energy. (C)				35,000	556,719
Princeton Video Image, Inc. (1)(2)(7) -- Real time sports and entertainment advertising -- 1.5% of fully diluted equity (C)				150,200	1,064,895
Total Publicly Traded Portfolio (cost: \$3,018,422)			\$3,426,475		
Private Placement Portfolio (Illiquid) -- 2.5% of total investments					
Exponential Business Development Company (1)(2)(5) -- Venture capital partnership focused on early stage companies					
	Limited partnership interest . . (A)	--	\$ 25,000		
MedLogic Global Corporation (1)(2) -- Medical cyanoacrylate adhesive -- 1.08% of fully diluted equity					
	Series B Convertible Preferred Stock. (A)	60,319			
	Common Stock (A)	25,798			
	Warrants @ \$5.00 expiring earlier of Initial Public Offering registration and 12/31/98. (A)	115,869	943,296		
Total Private Placement Portfolio (cost: \$1,058,775)			\$ 968,296		
Total Investments in Unaffiliated Companies (cost: \$4,077,197) \$4,394,771					

The accompanying notes are an integral part of this schedule.

</TABLE>

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<TABLE>

<CAPTION>

SCHEDULE OF INVESTMENTS DECEMBER 31, 1997

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

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

Investments in Non-Controlled Affiliates (12)(14) --
42.8% of total investments

Publicly Traded Portfolio -- 17.7% of total investments

Nanophase Technologies Corporation			
(1)(2)(6)(8) -- Manufactures			
and markets inorganic crystals of			
nanometric dimensions -- 5.1%			
of fully diluted equity			
Common Stock	(C)	730,916	\$6,854,660

Total Publicly Traded Portfolio (cost: \$1,626,204) \$6,854,660

Private Placement Portfolio (Illiquid) -- 25.1% of total investments

Genomica Corporation (1)(2)(5)(6)(9)			
-- Develops software that enables			
the study of complex genetic			
diseases -- 11.0% of fully			
diluted equity			
Common Stock	(A)	199,800	
Series A Voting Convertible			
Preferred Stock	(A)	1,660,200	\$1,000,304

NBX Corporation (1)(2)(6)(10) --			
Exploits innovative distributed			
computing technology for use in			
small business telephone systems			
-- 15.1% of fully diluted equity			
Series A Convertible Preferred Stock (B)		500,000	
Series C Convertible Preferred Stock (B)		240,793	
Series D Convertible Preferred Stock (B)		59,965	4,540,298

PHZ Capital Partners Limited Partnership (2)			
-- Organizes and manages investment			
partnerships -- 20.0% of fully diluted			
equity			
Limited partnership interest	(D)	--	1,405,622
One year 8% note due 9/22/98	(A)	\$ 500,000	500,000

PureSpeech, Inc. (1)(2)(6) -- Develops			
and markets innovative speech			
recognition technology -- 8.8% of			
fully diluted equity			
Series A Convertible Preferred Stock (D)		190,476	1
Convertible Promissory Note	(D)	\$ 243,980	1

Questech Corporation (1)(2)(6) --			
Manufactures and markets proprietary			
decorative tiles and signs -- 15.2% of			
fully diluted equity			
Common Stock	(D)	565,792	2,263,168
Warrants at \$4.00 expiring 11/28/01	(A)	166,667	167

Total Private Placement Portfolio (cost: \$7,154,287) \$ 9,709,561

Total Investments in Non-Controlled Affiliates (cost: \$8,780,491). \$16,564,221

The accompanying notes are an integral part of this schedule.

</TABLE>

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS DECEMBER 31, 1997

<S>	<C>	<C>	<C>
	Method of	Shares/	

Valuation (3) Principal Value

Private Placement Portfolio in Controlled
Affiliates (12)(14) (Illiquid) -- 6.6% of total investments

BioSupplyNet, Inc. (1)(2)(6)(11) --
Expands commercially the print
and World Wide Web product
directories developed by Cold
Spring Harbor Laboratory Press --
42.7% fully diluted equity
Series A Convertible

Preferred Stock. (A)	775,000	\$ 775,000
Convertible Note (Note 7). (A)	\$ 50,000	50,000

MultiTarget, Inc. (1)(2)(6) --
Developing intellectual property
related to localized treatment
of cancer -- 37.5% of fully
diluted equity
Series A Convertible

Preferred Stock. (A)	375,000	210,000
------------------------------	---------	---------

NeuroMetrix, Inc. (1)(2)(6) --
Developing devices for: 1) diabetics
to monitor their blood glucose and
2) detection of carpal tunnel syndrome
-- 30.0% of fully diluted equity
Series A Convertible

Preferred Stock. (A)	175,000	
Series B Convertible		
Preferred Stock. (A)	125,000	410,000
Convertible Note (Note 8). (A)	\$ 1,100,000	1,100,000

Total Private Placement Portfolio
in Controlled Affiliates (cost: \$2,545,000) \$ 2,545,000

U.S. Government Obligations -- 39.2% of total investments

U.S. Treasury Note dated 03/01/93 due date 02/28/98 -- 5.125% rate (H)	\$ 5,000,000	\$ 4,996,100
U.S. Treasury Bill dated 01/09/97 due date 01/08/98 -- 5.2% yield. (K)	\$ 975,000	966,383
U.S. Treasury Bill dated 07/17/97 due date 01/15/98 -- 5.2% yield. (K)	\$ 425,000	421,229
U.S. Treasury Bill dated 08/14/97 due date 02/12/98 -- 5.0% yield. (K)	\$ 1,125,000	1,115,294
U.S. Treasury Bill dated 08/28/97 due date 02/26/98 -- 5.2% yield. (K)	\$ 7,720,000	7,656,232

Total Investments in U.S. Government Obligations
(cost: \$15,097,810) \$15,155,238

Total Investments -- 100% (cost: \$30,500,498). \$38,659,230

=====

The accompanying notes are an integral part of this schedule.

</TABLE>

SCHEDULE OF INVESTMENTS DECEMBER 31, 1997

Notes to Schedule of Investments

- (1) Represents a non-income producing security. Equity investments that have not paid dividends within the last twelve months are considered to be non-income producing.
- (2) Legal restrictions on sale of investment.
- (3) See Footnote to Schedule of Investments for a description of the Method of Valuation A to L.
- (4) These investments were made during 1997. Accordingly, the amounts shown on the schedule represent the gross additions in 1997.

- (5) No changes in valuation occurred in these investments during the year ended December 31, 1997.
- (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 has not yet commenced its planned principal operations or has commenced such operations but has not realized significant revenue from them.
- (7) Formerly named Princeton Electronic Billboard, Inc. As of December 31, 1997, the market price per share of Princeton Video Image, Inc. ("PVII") was \$9.375. As of March 13, 1998, the market price was \$6.53125 and the Company valued its holding at \$769,262. The Company is subject to a lock-up agreement on the stock which expires December 16, 1998.
- (8) As of December 31, 1997, the market price per share of Nanophase Technologies Corporation ("NANX") was \$12.6875. As of March 13, 1998, the market price per share was \$6.00, and the Company valued its holding at \$3,373,178. The Company is subject to a lock-up agreement on the stock which expires on May 26, 1998.
- (9) Genomica Corporation was cofounded by the Company, Cold Spring Harbor Laboratory and Falcon Technology Partners, LP. Mr. G. Morgan Browne serves on the Board of Directors of the Company and is Administrative Director of Cold Spring Harbor Laboratory.
- (10) Formerly named PowerVoice Technologies, Inc.
- (11) BioSupplyNet, Inc. was cofounded by the Company, Cold Spring Harbor Laboratory and other investors. Mr. G. Morgan Browne serves on the Board of Directors and is Administrative Director of Cold Spring Harbor Laboratory.
- (12) Investments in unaffiliated companies consist of investments where Harris & Harris Group, Inc. (the "Company") owns less than 5 percent of the investee company. Investments in non-controlled affiliated companies consist of investments where the Company owns more than 5 percent but less than 25 percent of the investee company. Investments in controlled affiliated companies consist of investments where the Company owns more than 25 percent of the investee company.
- (13) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is \$4,184,874. The gross unrealized appreciation based on tax cost for these securities is \$644,217. The gross unrealized depreciation on the cost for these securities is \$434,320.
- (14) The percentage ownership of each investee disclosed in the Schedule of Investments expresses the potential common equity interest in each such investee. The calculated percentage represents the amount of issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common stock plus common shares reserved for issued and outstanding warrants, convertible securities and stock options.

The accompanying notes are an integral part of this schedule.

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FOOTNOTE TO SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

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

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

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

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

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

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

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

EQUITY-RELATED SECURITIES

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

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

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

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

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

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

D. Analytical Method: The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members, based on the data

available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities owned by the Company and the nature of any rights to require the company to register restricted securities under applicable securities laws.

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

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

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

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

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

LONG-TERM FIXED-INCOME SECURITIES

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

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

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

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

SHORT-TERM FIXED-INCOME INVESTMENTS

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

ALL OTHER INVESTMENTS

L. All Other Investments are reported at fair value as determined in good

faith by the Investment and Valuation Committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Investment and Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if the securities had to be sold in an immediate liquidation. The Company makes many of its portfolio investments with the view of holding them for a number of years, and the reported value of such investments may be considered in terms of disposition over a period of time. Thus valuations as of any particular date are not necessarily indicative of amounts that may ultimately be realized as a result of future sales or other dispositions of investments held.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

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

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

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification in 1998 as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code. As a RIC, the Company must, among other things, distribute at least 90 percent of its taxable net income and may either distribute or retain its taxable net realized capital gains on investments. There can be no assurance that the Company will qualify as a RIC or that if it does qualify, it will continue to qualify. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments.")

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Income Taxes. The Company records income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities have been

established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes, the most significant difference of which relates to the Company's unrealized appreciation on investments.

Reclassifications. Certain reclassifications have been made to the December 31, 1995 and December 31, 1996 financial statements to conform to the December 31, 1997 presentation.

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Estimates by Management. The preparation of the financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 1997 and 1996, and the reported amounts of revenues and expenses for the three years ended December 31, 1997. Actual results could differ from these estimates.

NOTE 3. STOCK OPTION PLAN AND WARRANTS OUTSTANDING

On August 3, 1989, the shareholders of the Company approved the 1988 Long Term Incentive Compensation Plan. On June 30, 1994, the shareholders of the Company approved various amendments to the 1988 Long Term Incentive Compensation Plan: 1) to conform to the provisions of the Business Development Company regulations under the 1940 Act, which allow for the issuance of stock options to qualified participants; 2) to increase the reserved shares under the amended plan; 3) to call the plan the 1988 Stock Option Plan, as Amended and Restated (the "1988 Plan"); and 4) to make various other amendments. On October 20, 1995, the shareholders of the Company approved an amendment to the 1988 Plan authorizing automatic 20,000 share grants of non-qualified stock options to newly elected non-employee directors of the Company.

The Company's 1988 Plan was cancelled as of December 31, 1997, canceling all outstanding stock options and eliminating all potential stock option grants. As of January 1, 1998, the Company adopted the Harris & Harris Group, Inc. Employee Profit-Sharing Plan ("Plan") that provides for profit-sharing equal to 20 percent of net after-tax income, with the exception of unrealized gains as of September 30, 1997, on which gains the Company will not pay employee profit-sharing. For the three months ended December 31, 1997, the Company had accrued \$423,808 under the Plan.

Under the 1988 Plan, the number of shares of common stock of the Company reserved for issuance was equal to 20 percent of the outstanding shares of common stock of the Company at the time of grant. However, so long as warrants, options, and rights issued to persons other than the Company's directors, officers, and employees at the time of grant remain outstanding, the number of reserved shares under the 1988 Plan may not exceed 15 percent of the outstanding shares of common stock of the Company at the time of grant, subject to certain adjustments.

The 1988 Plan provided for the issuance of incentive stock options and non-qualified stock options to eligible employees as determined by the Compensation Committee of the Board (the "Committee"), which is composed of four non-employee directors. The Committee also had the authority to construe and interpret the 1988 Plan, to establish rules for the administration of the 1988 Plan and, subject to certain limitations, to amend the terms and conditions of any outstanding awards. Options may have been exercised for up to 10 years from the date of grant at prices not less than the fair market value of the Company's common stock at the date of grant. The 1988 Plan provided that payment by the optionee upon exercise of an option may have been made using cash or Company stock held by the optionee.

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

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<TABLE>

<S>

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<C>

	1997	1996	1995
Net Realized (Loss) Income:			
As Reported	\$(3,577,818)	\$(3,756,240)	\$ 271,940
Pro Forma	\$(3,921,583)	\$(4,197,096)	\$(88,752)

Net Asset Value per share:

As Reported	\$3.15	\$3.44	\$3.54
Pro Forma	\$3.12	\$3.40	\$3.51

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

	1997	1996	1995
Stock volatility	0.60	0.60	0.59
Risk-free interest rate	6.3%	6.8%	6.5%
Option term in years	7	7	7
Stock dividend yield	--	--	--

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

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A summary of the status of the Company's 1988 Plan at December 31, 1997 and 1996 and changes during the years then ended is presented in the table and narrative below:

	December 31, 1997		December 31, 1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,080,000	\$4.584	1,050,000	\$4.445
Granted	300,000	\$3.875	160,000	\$5.008
Exercised	158,000	\$1.603	50,000	\$1.750
Forfeited	397,000	\$5.267	80,000	\$5.375
Expired	--	--	--	--
Canceled	825,000	\$4.569	--	--
Outstanding at end of year	0	0	1,080,000	\$4.584
Exercisable at end of year	0	0	390,000	\$3.334
Weighted average fair value of options granted	\$2.50	--	\$3.222	--

During 1997, the Chairman of the Company exercised a warrant to purchase 237,605 shares of common stock at a price of \$2.0641.

NOTE 4. CAPITAL STOCK TRANSACTIONS

On May 18, 1995, the Company completed a \$5,000,001 private placement to subsidiaries of American Bankers Insurance Group of 1,075,269 unregistered shares of its common stock at \$4.65 per share, which was the average closing price of the Company's common stock on the Nasdaq National Market during the prior ten trading days. As part of the transaction, American Bankers Insurance Group has been granted certain registration rights and has executed a standstill agreement.

NOTE 5. EMPLOYEE BENEFITS

The Company has an employment and severance contract with its Chairman, Charles E. Harris, pursuant to which he is to receive compensation in the form of salary and other benefits. The term of the contract expires on December 31, 1999. Base salary is to be increased annually to reflect inflation and in addition may be increased by such amount as the Compensation Committee of the Board of Directors of the Company deems appropriate. In addition, Mr. Harris would be entitled, under certain circumstances, to receive severance pay under the employment and severance contracts.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. During 1997, contributions to the plan that have been charged to operations totaled approximately \$37,000.

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On June 30, 1994, the Company adopted a plan to provide medical and health coverage for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of \$176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 1997, the Company had a reserve of \$232,415 for the plan.

NOTE 6. INCOME TAXES

As of December 31, 1997, the Company had not elected tax treatment available to RICs under Sub-Chapter M of the Code. Accordingly, for federal and state income tax purposes, the Company is taxed at statutory corporate rates on its income, which enables the Company to offset any future net operating losses against prior years' net income. The Company may carry back operating losses against net income two years and carryforward such losses 15 years.

For the years ended December 31, 1997, 1996 and 1995, the Company's income tax (benefit) provision was allocated as follows:

<TABLE>

<S>	<C> 1997	<C> 1996	<C> 1995
Investment operations	\$ (933,103)	\$ (680,834)	\$(597,215)
Realized (loss) gain on investments	(1,119,825)	(1,327,401)	738,419
Increase (decrease) in unrealized appreciation on investments	521,900	1,597,748	85,195
	-----	-----	-----
Total income tax (benefit) provision	\$ (1,531,028)	\$ (410,487)	\$ 226,399
	=====	=====	=====

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

Current -- Federal	\$ 0	\$(2,047,304)	\$ (38,319)
Deferred -- Federal	(1,531,028)	1,636,817	264,718

Total income tax (benefit) provision	\$(1,531,028)	\$ (410,487)	\$ 226,399
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</TABLE>

The Company's net deferred tax liability at December 31, 1997 and 1996 consists of the following:

<TABLE>

<S>	<C> 1997	<C> 1996	
Unrealized appreciation on investments		\$ 2,817,898	\$2,295,998
Net operating loss carryforward		(1,856,989)	0
Medical retirement benefits		(81,345)	(72,320)
Other	(211,867)	(36,231)	
Net deferred income tax liability		\$ 667,697	\$2,187,447

</TABLE>

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification in 1998 as a RIC under Sub-Chapter M of the Code. As a RIC, the Company annually must distribute at least 90 percent of its investment company taxable income as a dividend and may either distribute or retain its taxable net capital gains from investments. There can be no assurance that the Company will qualify as a RIC or that, if it does qualify,

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it will continue to qualify. To initially qualify as a RIC, the Company must pay a dividend to shareholders equal to the Company's cumulative realized earnings and profits ("E&P"). The Company currently estimates that its E&P as of December 31, 1997 was approximately \$7.8 million and it currently intends to distribute such E&P prior to year-end 1998. Continued qualification as a RIC requires the Company to satisfy certain portfolio diversification requirements in future years. The Company's ability to satisfy those requirements may not be controllable by the Company. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Recent Developments.")

The Company incurred \$100,000 in additional legal and accounting costs as part of the effort in seeking RIC qualification.

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. Rent expense under this lease for the year ended December 31, 1997, was \$130,092. Future minimum lease payments in each of the following years are: 1998 -- \$168,768; 1999 -- \$176,030; 2000 -- \$178,561; 2001 -- \$178,561; 2002 -- \$178,561; thereafter \$101,946.

In December 1993, the Company and MIT announced the establishment by the Company of the Harris & Harris Group Senior Professorship at MIT. Prior to the arrangement for the establishment of this Professorship, the Company had made gifts of stock in start-up companies to MIT. These gifts, together with the contribution of \$700,000 in cash in 1993, which was expensed by the Company in 1993, were used to establish this named chair. The Company contributed to MIT securities with a cost basis of \$3,280, \$20,000 and \$20,000 in 1993, 1994, and 1995, respectively. These contributions will be applied to the MIT Pledge at their market value at the time the shares become publicly traded or otherwise monetized in a commercial transaction and are free from restriction as to sale by MIT. At December 31, 1997, the Company would have to fund additional cash and/or property that would have to be valued at a total of approximately \$750,000 by December 1998, in order for the Senior Professorship to become permanent.

In June 1997, the Company agreed to provide one of its investee companies with a \$450,000 revolving line of credit, of which \$50,000 had been used through December 31, 1997. The purpose of this line of credit, which will be secured by accounts receivable, is to provide for seasonal cash flow. To the extent that this line of credit is utilized, the Company

will also receive warrants to purchase common stock.

In December 1997, the Company signed a Demand Promissory Note for a \$4,000,000 line of credit with J.P. Morgan collateralized by the Company's U.S. Treasury obligations. As of December 31, the Company had borrowed \$4,000,000 against the line of credit. From December 31, 1997 to January 2, 1998, the rate on the line of credit was prime (8.5 percent). From January 2, 1998 to April 2, 1998, the interest rate on the line of credit was libor plus 1.5 (7.3125 percent).

NOTE 8. SUBSEQUENT EVENTS

On February 27, 1998, the Company converted its \$1,100,000 NeuroMetrix, Inc. Convertible Note into 229,620 shares of Series C-2 Preferred Stock, as part of a \$4 million financing of NeuroMetrix, Inc.

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<TABLE>

<CAPTION>

SELECTED PER SHARE DATA AND RATIOS

Per share operating performance:

<S>	<C>	<C>	<C>	<C>	<C>
	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	December	December	December	December	December
	31, 1997	31, 1996	31, 1995	31, 1994	31, 1993

Net asset value, beginning of period	\$ 3.44	\$ 3.54	\$ 3.43	\$ 3.66	\$ 2.71
--	---------	---------	---------	---------	---------

Net operating loss	(0.14)	(0.12)	(0.11)	(0.25)	(0.19)
Net realized (loss) gain	(0.19)	(0.24)	0.14	0.01	2.75
Net (decrease) increase in unrealized appreciation as a result of sales	(0.17)	0.16	(0.01)	(0.11)	(1.78)
Net increase (decrease) in unrealized appreciation on investments held	0.26	0.13	0.03	0.01	0.25
Net (decrease) increase from capital stock transactions	(0.05)	(0.03)	0.06	0.11	(0.08)

Net asset value, end of period	\$ 3.15	\$ 3.44	\$ 3.54	\$ 3.43	\$ 3.66
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Market value per share, end of period	\$ 3.50	\$ 3.75	\$ 7.875	\$ 6.375	\$ 8.250
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Deferred income tax per share	\$ 0.06	\$ 0.21	\$ 0.050	\$ 0.030	\$ 0.080
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Ratio of expenses to average net assets	9.1%	8.1%	8.3%	13.6%	11.3%
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Ratio of net operating loss to average net assets	4.5%	3.5%	3.2%	7.1%	6.0%
---	------	------	------	------	------

Investment return based on:

Stock price	(6.7)%	(52.4)%	23.5%	(22.7)%	88.6%
Net asset value	(8.4)%	(2.8)%	3.2%	(6.3)%	35.0%

Portfolio turnover	77.2%	51.3%	51.2%	136.4%	118.1%
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Net assets, end of

period	\$33,654,934	\$35,932,603	\$36,561,909	\$31,310,802	\$32,749,297
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Number of shares

outstanding	10,692,971	10,442,682	10,333,902	9,136,747	8,944,828
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The accompanying notes are an integral part of this schedule.

</TABLE>

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Item 9. Disagreements on Accounting and Financial Disclosure

None.

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PART III

Item 10. Directors and Executive Officers of the Company

OFFICERS

* Charles E. Harris, Chairman, Chief Executive Officer and Chief Compliance Officer. For additional information about Mr. Harris, please see the Directors' biographical information section below.

Mel P. Melsheimer, age 58, has served as President, Chief Operating Officer and Chief Financial Officer since February 1997. Previously, Harris & Harris Group utilized Mr. Melsheimer as a nearly full-time consultant or officer of an investee company since March 1994. Mr. Melsheimer has had extensive entrepreneurial experience as well as senior operational and financial management responsibilities with public and privately owned companies. From November 1992 to February 1994, he served as Executive Vice President, Chief Operating Officer and Secretary of Dairy Holdings, Inc. From June 1991 to August 1992, he served as President and Chief Executive Officer of Land-O-Sun Dairies as well as Executive Vice President of Finevest Foods, Inc. From March 1989 to May 1991, he served as Vice President, Chief Financial Officer and Treasurer of Finevest Foods, Inc. From January 1984 to February 1989, he served as Chairman, Chief Executive Officer and Founder of PHX Pacific, Inc. and President and Chief Executive Officer of MPM Capital Corp. From January 1981 to December 1983, he served as Executive Vice President and Chief Operating Officer of AZL Resources. From November 1975 to December 1980, he served as Executive Vice President and Chief Financial Officer of AZL Resources. From January 1968 to November 1975, he served in a financial capacity before becoming Vice President and Chief Financial Officer of Pepsi-Cola Company, PepsiCo, Inc. in 1972. He was graduated from the University of Southern California (MBA) and Occidental College (B.A., Economics).

Rachel M. Pernia, age 38, has served since January 1992 as a Vice President and Controller of the Company, as Treasurer since November 1994 and Secretary since September 1996. From 1988 until Ms. Pernia joined the Company, she was employed as Assistant Controller for Cellcom Corp. From 1985 through 1988, she was employed as a senior corporate accountant by Bristol-Myers Squibb Company. She was graduated from Rutgers University (B.A., 1981) and is a certified public accountant.

Compliance with Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Corporation's officers and directors, and persons who own more than ten percent of the Corporation's common stock to file reports

(including a year-end report) of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC") and to furnish the Corporation with copies of all reports filed.

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Based solely on a review of the forms furnished to the Corporation, or written representations from certain reporting persons, the Corporation believes that except for a late filing of Form 4 by Dr. C. W. Bardin in connection with a purchase of shares and a late filing of Form 5 by Charles E. Harris in connection with 13 charitable gifts of Harris & Harris Group, Inc. shares donated by the Susan T. and Charles E. Harris Foundation, all persons who were subject to Section 16(a) in 1997 complied with the filing requirements.

DIRECTORS

Dr. C. Wayne Bardin, age 63, was elected to the Company's Board of Directors in December 1994. Dr. Bardin is currently President of Thyreos Corp., a privately held, start up pharmaceutical company. His recent professional appointments have included: Vice President, The Population Council; Professor of Medicine, Chief of the Division of Endocrinology, The Milton S. Hershey Medical Center of Pennsylvania State University; and Senior Investigator, Endocrinology Branch, National Cancer Institute. Dr. Bardin also serves as a consultant to several pharmaceutical companies. He has directed basic and clinical research leading to over 500 publications and patents. He has negotiated 15 licensing and manufacturing agreements. He has directed clinical R&D under 18 INDs filed with the U.S. FDA. Dr. Bardin has been appointed to the editorial boards of 15 journals. He has also served on national and international committees and boards for NIH, WHO, The Ford Foundation, and numerous scientific societies. Dr. Bardin received a B.A. from Rice University; a M.S. and M.D. from Baylor University and a Doctor Honoris Causa from the University of Caen and the University of Paris.

Dr. Phillip A. Bauman, age 42, was elected to the Company's Board of Directors in February 1998. Dr. Bauman is an orthopedic surgeon who is in practice in New York City and holds an academic appointment at Columbia University since 1988. He is a principal and Vice President of Orthopedic Associates of New York since 1994. He is also the director of Miller Health Care Institute associated with St. Luke's/Roosevelt Hospital Center in New York City since 1995. He holds a bachelor's and master's degree in biology from Harvard University and a medical degree from Columbia University. Dr. Bauman was elected a fellow of the American Academy of Orthopedic Surgeons in 1991 and is affiliated with the New York Academy of Medicine and is on the advisory board of a medical research foundation. Dr. Bauman is William R. Polk's son-in-law.

G. Morgan Browne, age 63, was elected to the Company's Board of Directors in June 1992. Since 1985, Mr. Browne has been Administrative Director of the Cold Spring Harbor Laboratory, a private not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. In prior years, he was active in the management of numerous scientifically based companies as an individual consultant or as an associate of Laurent Oppenheim Associates, Industrial Management Consultants. He is a director of OSI Pharmaceuticals, Inc. (principally engaged in drug discovery based on gene transcription), a founding director of the New York Biotechnology Association, and a founding director and Treasurer of the Long Island Research Institute. He is a graduate of Yale University and attended New York University Graduate School of Business.

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Harry E. Ekblom, age 69, was elected to the Company's Board of Directors in 1984. Mr. Ekblom is a partner in Ekblom & Ekblom LLC and President of Harry E. Ekblom & Co., Inc. He is the former Vice Chairman of A.T. Hudson & Co. Inc. Before 1984, he was employed by European American Bank as the Chairman of its Board of Directors and Chief Executive Officer. Mr. Ekblom is a director of The Commercial Bank of New York. He is a graduate of Columbia College and the New York University School of Law, a member of the New York Bar, and holds honorary degrees from Hofstra University and Pace University.

Dugald A. Fletcher, age 68, was elected to the Company's Board of

Directors in June 1996. Mr. Fletcher has been President of Fletcher & Company, Inc., a management consulting firm, for the past five years. He was also Chairman of Binnings Building Products Company, Inc. and is an Advisor to the Gabelli Growth Fund and a Director of Gabelli Convertible Securities Fund. Previously, he was an advisor to the Gabelli/Rosenthal LP, a leveraged buyout fund; Chairman of Keller Industries (building and consumer products); Director and investor in Mid-Atlantic Coca-Cola Bottling Company; Senior Vice President of Booz-Allen & Hamilton and President of Booz-Allen Acquisition Services; Executive Vice President and a Director of Paine Webber, Inc.; and President of Baker, Weeks and Co., Inc. He is a graduate of Harvard College and of Harvard Business School.

* Charles E. Harris, age 55, has been a director of the Company and Chairman of its Board of Directors since April 1984. He has served as Chief Executive Officer of the Company since July 1984. From April 1990 to August 1991, he served as Chairman of publicly owned Ag Services of America, Inc., in which the Company then held an equity interest. From its formation in November 1989 until June 1990, he served as Chairman and Chief Executive Officer of publicly owned Molten Metal Technology, Inc., which the Company cofounded and in which the Company then held an equity interest. From July 1986 to January 1989, he served as Chairman of publicly owned Re Capital Corporation, which the Company founded and in which the Company then held an equity interest. From July 1984 to July 1985, he served as a director and was the control person of publicly owned Alliance Pharmaceutical, which the Company founded and in which the Company then held an equity interest. Prior to 1984, he was Chairman of Wood, Struthers and Winthrop Management Corp., the investment advisory subsidiary of Donaldson, Lufkin & Jenrette. He was a member of the Advisory Panel for the Congressional Office of Technology Assessment. He is a member of the New York Society of Security Analysts. Among his eleemosynary activities, he is a Trustee of The Institute for Genomic Research, a life-sustaining fellow of the Massachusetts Institute of Technology and a member of the President's Council of Cold Spring Harbor Laboratory. He was graduated from Princeton University (A.B., 1964) and the Columbia University Graduate School of Business (MBA, 1967).

Jon J. Masters, age 60, was elected to the Company's Board of Directors in February 1992. Since July 1996, Mr. Masters has been Vice Chairman of Robb Peck McCooley Specialist Corporation. Prior to that, since 1976, he was a member of the law firm of Christy & Viener, which he cofounded. Mr. Masters is a graduate of Princeton University and Harvard Law School.

[FN]

* Charles E. Harris is an "interested person" of the Company, as defined in the Investment Company Act of 1940, as an owner of more than five percent of the Company's stock, as a control person and as an officer of the Company.

</FN>

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Glenn E. Mayer, age 72, has been a director of the Company since 1981. In December 1991, Mr. Mayer joined, as a Senior Vice President, the Investment Banking division of Reich & Company. Reich & Co. is now a division of Fahnstock & Company, Inc., a member firm of the New York Stock Exchange. For 15 years prior to that, he was employed by Jesup & Lamont Securities Co. and its successor firms, in the Corporate Finance department. Mr. Mayer is a graduate of Indiana University.

William R. Polk, age 69, has been a director of the Company since August 1988. For the last seven years, Mr. Polk has been a self-employed consultant. The author of some 15 books and over 100 articles, he has been an advisor to a number of corporations including Schroder Bank, Citibank, Crocker National Bank, TWA, Teledyne, Volkswagen, Time Inc. and of the United Nations. He is the former President of the Adlai Stevenson Institute of International Affairs, a former member of the Policy Planning Council of the United States Department of State, and a former Professor of History of the University of Chicago and of Harvard University. Mr. Polk is a graduate of Harvard University (B.A. with Honors and Ph.D) and of Oxford University (B.A. with Honors and M.A.) and has received various academic, foundation and governmental awards. Mr. Polk is the father-in-law of Dr. Phillip A. Bauman.

James E. Roberts, age 52, was elected to the Company's Board of Directors in June 1995. Since May 1995, Mr. Roberts has been Vice Chairman of Trenwick America Reinsurance Corporation. During the nine years prior to that, Mr. Roberts held the following positions at Re Capital Corporation: President

and Chief Executive Officer, from 1992 to 1995; President and Chief Operating Officer, 1991 to 1992; Director since 1989 and Senior Vice President, 1986 to 1991; President and Chief Executive Officer of the Company's principal operating subsidiary, Re Capital Reinsurance Corporation, from 1991 to 1995. Mr. Roberts has also served as Senior Vice President and Chief Underwriting Officer of North Star Reinsurance Corporation, from 1979 to 1986; Vice President of Rollins Burdick Hunter of New York, Inc., 1977 to 1979; Secretary of American Home Assurance/National Union Insurance Group of American International Group, Inc., 1973 to 1977; and commercial casualty underwriter at Continental Insurance Company, 1972 to 1973. Mr. Roberts is a graduate of Cornell University.

Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth a summary for each of the last three years of the cash and non-cash compensation awarded to, earned by, or paid to the Chief Executive Officer of the Company and the other executive officers of the Company, whose individual remuneration exceeded \$100,000 for the year ended December 31, 1997. The Company's 1988 Stock Option Plan was canceled on December 31, 1997, canceling all stock options and eliminating all potential stock option grants.

<TABLE>

<S> Name and Principal Position	<C> Year	Annual Compensation			Long-Term Compensation Awards		<C> Options
		<C> Salary	<C> Other Annual Bonus	<C> Other Compensation	<C> Stock Compensation	<C> Options	
	(\$)	(\$)	(\$) (1)	(\$) (2)	(#)		
Charles E. Harris Chairman, CEO & Chief Compliance Officer (3)	1997	574,380	--	--	9,500	--	
	1996	557,650	--	--	9,500	--	
	1995	543,818	--	--	9,240	160,000	
Mel P. Melsheimer President & COO (4)	1997	209,852	--	61,992	9,500	300,000	
	1996	203,248	--	--	--	--	
	1995	206,434	--	--	--	--	
David C. Johnson, Jr. EVP (5)	1997	194,100	--	--	--	--	
	1996	197,397	--	--	9,500	--	
	1995	192,500	--	--	9,240	200,000	

<FN>

- (1) Other than Mr. Melsheimer, amounts of "Other Annual Compensation" earned by the named executive officers for the periods presented did not meet the threshold reporting requirements.
- (2) Amounts reported represent the Company's contributions on behalf of the named executive to the Harris & Harris Group, Inc. 401(k) Plan described below.
- (3) The Company has an employment contract with Charles E. Harris that was amended on June 30, 1992, January 3, 1993, June 30, 1994 and January 1, 1998 (the "Employment Contract"). The term of the Employment Contract expires on December 31, 1999.

Mr. Harris is to receive compensation under his Employment Contract in the form of salary and other benefits. Annual base salary is to be increased annually as of January 1 of each year to reflect inflation

and in addition may be increased by such amounts as the Board deems appropriate. The amendment on January 1, 1998 reduced Mr. Harris's salary to \$200,000 and allowed him to pursue other business opportunities and investments.

The Employment Contract provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of \$2,000,000. The Employment Contract also provides reimbursement for uninsured medical expenses, not to exceed \$5,000 per annum, adjusted for inflation, over the period of the contract, and disability insurance in the amount of 100 percent of his base salary.

The Employment Contract 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, for a period of two years, equal to the executive's base salary.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with the Company, effective August 15, 1990 which expires December 31, 1999. The severance compensation agreement provides that if, following a

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change in control of the Company, as defined in the agreement, such individual's employment is terminated by the Company without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If the executive's termination is without cause or is a constructive discharge, the amount payable under the Employment Contract will be reduced by the amounts paid pursuant to the severance compensation agreement.

- (4) Mr. Melsheimer joined the Company as President, Chief Operating Officer and Chief Financial Officer in February 1997. From 1994 to February 1997, Mr. Melsheimer was utilized by the Company as a consultant.

Included in Mr. Melsheimer's 1997 Other Annual Compensation is \$61,992 in relocation reimbursements.

- (5) Effective December 15, 1997, Mr. Johnson resigned as Executive Vice-President of the Company.

</FN>
</TABLE>

The following table sets forth information concerning stock options granted during the fiscal year ended December 31, 1997, to each of the executive officers identified in the Summary Compensation Table. No Directors were granted options during 1997. The Company's 1988 Stock Option Plan was canceled on December 31, 1997, canceling all outstanding stock options and eliminating all future stock option grants.

<TABLE>

<S> Name	<C> Number of Shares Under Grant (1)	<C> % of Total Options Granted to Employees in 1997	<C> Exercise Price	<C> Exercise Date	<C> Expiration Date	<C> Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)
						5%(3) 10%(4)

Charles E. Harris

Mel P. Melsheimer 300,000 100% \$3.875 2/10/07 \$ 731,090 \$ 1,852,726

David C.
Johnson, Jr. - - - - -

<FN>

- (1) All options would have become exercisable over a five year period.
- (2) The values shown are based on the indicated assumed annual rates of appreciation compounded annually over the term of the option net of the option exercise price. Actual gains realized, if any, on stock option exercises and common stock holdings are dependent on the future performance of the common stock and overall stock market conditions. There can be no assurance that the values shown in this table will be achieved.
- (3) Represents an assumed market price per share of common stock of \$6.312 on February 10, 2007.
- (4) Represents an assumed market price per share of common stock of \$10.051 on February 10, 2007.

</FN>

</TABLE>

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The following table sets forth information concerning each exercise of stock options during the fiscal year ended December 31, 1997 by each of the executive officers identified in the Summary Compensation Table and the number and value of unexercised options as of such date. The Company's 1988 Stock Option Plan was canceled on December 31, 1997, canceling all outstanding stock options and eliminating all potential stock option grants.

<TABLE>

<CAPTION>

Aggregated Option Exercises During 1997 and December 31, 1997 Option Value

<S>	<C>	<C>	<C>	<C>
Name	Number of Shares Acquired on Exercise	Value Realized (2)	Number of Unexercised Options at 12/31/97	Value of Unexercised Options at 12/31/97 (1)
Charles E. Harris	--	--	64,000/ 96,000	\$0/\$0
Mel P. Melsheimer	--	--	-- /300,000	\$0/\$0
David C. Johnson, Jr.	--	--	80,000/ --	\$0/\$0

<FN>

- (1) Based upon the difference between the exercise price of the options and the closing price of the Corporation's common stock on December 31, 1997.
- (2) Value realized is calculated as the number of shares acquired on exercise multiplied by the difference between the closing price of the Corporation's common stock on the date of exercise and the exercise price of the options, before any related tax liabilities or transaction costs.

</FN>

</TABLE>

The Company's 1988 Stock Option Plan was canceled as of December 31, 1997, canceling all outstanding stock options and eliminating all future stock option grants. As of January 1, 1998, the Company implemented the Harris & Harris Group, Inc. Employee Profit Sharing Plan (the "Plan") that provides for profit sharing equal to 20 percent of net after-tax income, excluding any unrealized gains as of September 30, 1997, on which gains the Company will not pay employee profit sharing. For the three months ended December 31, 1997, the Company had accrued \$423,808 for the Plan. Of this total accrual of \$423,808, \$326,338 of the accrual reflected the unrealized gain in Nanophase Technologies Corporation as of December 31, 1997. As of March 24, 1998, no profit sharing has been paid and there is no accrual for profit sharing, primarily reflecting the decline in the market price of

Compensation of Directors

<TABLE>

<S>	<C>	<C>	<C>	<C>
Name of Director	Aggregate Compensation	Pension Or Retirement Benefits As Part of Company's Compensation	Estimated Annual Expenses	Total Benefits Upon Paid to Directors
C. Wayne Bardin	\$ 6,500	--	--	\$ 6,500
Phillip A. Bauman (1)	\$ 0	--	--	\$ 0
G. Morgan Browne	\$10,295 (2)	--	--	\$10,295
Harry E. Ekblom	\$12,518 (3)	--	--	\$12,518
Dugald A. Fletcher	\$ 8,345 (4)	--	--	\$ 8,345
Charles F. Hays (5)	\$13,742 (6)	--	--	\$13,742
Jon J. Masters	\$ 8,500	--	--	\$ 8,500
Glenn E. Mayer	\$ 8,500	--	--	\$ 8,500
William R. Polk	\$23,096 (7)	--	--	\$23,096
James E. Roberts	\$ 7,500	--	--	\$ 7,500
Robert B. Schulz (8)	\$ 1,500	--	--	\$ 1,500

<FN>

- (1) Dr. Bauman was elected to the Board of Directors on February 24, 1998.
- (2) Includes \$295 paid to Mr. Browne to reimburse him for travel expenses to attend Board meetings.
- (3) Includes \$4,018 paid to Mr. Ekblom to reimburse him for travel expenses to attend Board meetings.
- (4) Includes \$345 paid to Mr. Fletcher to reimburse him for travel expenses to attend Board meetings.
- (5) Mr. Hays resigned as a Director on February 3, 1998.
- (6) Includes \$3,242 paid to Mr. Hays to reimburse him for travel expenses to attend Board meetings.
- (7) Includes \$14,596 paid to Mr. Polk to reimburse him for travel expenses to attend Board meetings.
- (8) Mr. Schulz resigned as a Director on May 9, 1997.

</FN>

</TABLE>

During the fiscal year ended December 31, 1997, directors who were not officers of the Company received \$1,000 for each meeting of the Board of Directors and \$500 for each committee meeting they attended. The Company also reimburses its directors for travel, lodging and related expenses they incur in attending Board and committee meetings. The total compensation and reimbursement for expenses to all directors in 1997 was \$100,496. The same director compensation arrangement is in effect for 1998.

As of December 31, 1997, all Directors' outstanding stock options were cancelled. In 1997, the Board of Directors approved that effective January 1, 1998, 50 percent of all Director fees be used to purchase Company stock.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security ownership of Directors, Nominees and Officers and other principal holders of the Company's voting securities

The following table sets forth certain information with respect to beneficial ownership (as that term is defined in the rules and regulations of the Securities and Exchange Commission) of the Company's common stock as of March 13, 1998 by (1) each person who is known by the Company to be the beneficial owner of more than five percent of the outstanding common stock, (2) each director of the Company, (3) each current executive officer listed in the Summary Compensation Table and (4) all directors and executive officers of the Company as a group. Except as otherwise indicated, to the Company's knowledge, all shares are beneficially owned and investment and voting power

is held as stated by the persons named as owners.

<TABLE>

<S> Name and Address of Beneficial Owner	<C> Number of Shares of Common Stock Owned	<C> Percent of Class
--	--	-------------------------

Charles E. and Susan T. Harris One Rockefeller Plaza, Suite 1430 New York, NY 10020	1,489,557 (1)	13.93%
---	---------------	--------

American Bankers Insurance Group 11222 Quail Roost Drive Miami, FL 33157	1,075,269 (2)	10.06%
--	---------------	--------

Jordan American Holdings, Inc. 1875 Ski Time Square Drive, Steamboat Springs, CO 80487	1,465,221 (3)	13.70%
--	---------------	--------

Dr. C. Wayne Bardin	6,840 (4)	*
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Dr. Phillip A. Bauman	8,387 (5)	*
-----------------------	-----------	---

Harry E. Ekblom	5,000	*
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Glenn E. Mayer	72,000 (6)	*
----------------	------------	---

Mel P. Melsheimer	5,072	*
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William R. Polk	71,000	*
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James E. Roberts	2,000	*
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All Directors and Officers as a group (12 persons)	1,667,856	15.60%
---	-----------	--------

*Less than one percent of issued and outstanding stock.

<FN>

(1) Includes 1,355,176 shares for which Mrs. Harris has sole power to vote and dispose of; 8,500 shares for which Mr. Harris has sole power to vote and dispose of; 21,996 shares held by Mrs. Harris as custodian for Mr. & Mrs. Harris's son. Includes 103,885 shares owned by the Susan T. and Charles E. Harris Foundation, in which Charles E. Harris and Susan T. Harris are designated trustees; voting and dispositive power are vested with the trustees.

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(2) Represents shares owned by subsidiaries of American Bankers Insurance Group, Inc.

(3) Represents shares owned by Jordan Financial Services Group as of February 12, 1998. Jordan Financial Services Group is a registered investment advisor that holds these shares for investment purposes only on behalf of various clients.

(4) Includes 2,840 shares owned by Bardin LLC for the Bardin LLC Profit-Sharing Keogh.

(5) Includes 5,637 shares owned by Ms. Milbry C. Polk, Dr. Bauman's wife.

(6) Includes 2,000 shares owned by Mrs. Mayer.

</FN>

</TABLE>

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, 1997.

PART IV

Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

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

(1) The following Financial Statements of the Company are set forth under Item 8:

Statements of Assets and Liabilities as of December 31, 1997 and 1996

Statements of Operations for the years ended December 31, 1997, 1996 and 1995

Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995

Statements of Changes in Net Assets for the years ended December 31, 1997, 1996 and 1995

Schedule of Investments as of December 31, 1997

Footnote to Schedule of Investments

Notes to Financial Statements

Selected Per Share Data and Ratios for the years ended December 31, 1997, 1996, 1995, 1994 and 1993

(2) Report of Independent Public Accountants.

(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. (Asterisk denotes exhibits filed with this report.)

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.

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

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

10.1* Amended and Restated Employment Agreement between Harris & Harris Group, Inc. and Charles E. Harris dated January 1, 1998.

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

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

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

10.16* Demand Promissory Note, Corporate Certificate-Borrowing, Statement of Purpose for an Extension of Credit Secured by Margin Stock by and among Harris & Harris Group, Inc. and J.P. Morgan.

10.17* Harris & Harris Group, Inc. Employee Profit Sharing Plan.

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

23* Consent of Arthur Andersen LLP.

27.0* Financial Data Schedule.

(b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the last quarter of 1997.

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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 30, 1998

By: /s/

Charles E. Harris
Chairman of the Board

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

Signatures	Title	Date
/s/ ----- Charles E. Harris	Chairman of the Board, Chief Compliance Officer and Chief Executive Officer	March 30, 1998
/s/ ----- Mel P. Melsheimer	President, Chief Operating Officer and Chief Financial Officer	March 30, 1998
/s/ ----- Rachel M. Pernia	Vice President, Controller, Treasurer and Principal Accounting Officer	March 30, 1998
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/s/ ----- C. Wayne Bardin	Director	March 25, 1998
/s/ ----- Phillip A. Bauman	Director	March 26, 1998
/s/ ----- G. Morgan Browne	Director	March 24, 1998
/s/ ----- Harry E. Ekblom	Director	March 24, 1998
/s/ ----- Dugald A. Fletcher	Director	March 27, 1998
/s/ ----- Jon J. Masters	Director	March 25, 1998
/s/		

----- Director March 26, 1998
Glenn E. Mayer

/s/
----- Director March 25, 1998
William R. Polk

/s/
----- Director March 25, 1998
James E. Roberts

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EXHIBIT INDEX

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

Exhibit No.	Description
10.1	Amended and Restated Employment Agreement between Harris & Harris Group, Inc. and Charles E. Harris dated January 1, 1998.
10.5	Severance Compensation Agreement by and between the Company and Charles E. Harris dated August 15, 1990, incorporated by reference to exhibit 10 (s) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
10.16	Demand Promissory Note, Corporate Certificate-Borrowing, Statement of Purpose for an Extension of Credit Secured by Margin Stock by and among Harris & Harris Group, Inc. and J.P. Morgan.
10.17	Harris & Harris Group, Inc. Employee Profit Sharing Plan.
11.0	Computation of Per Share Earnings is set forth under Item 8.
23	Consent of Arthur Andersen LLP.
27.0	Financial Data Schedule.

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DEMAND PROMISSORY NOTE

Date: December 24, 1997

U.S. \$4,000,000.00

FOR VALUE RECEIVED, Harris & Harris Group, Inc. (the "Borrower") promises to pay to the order of MORGAN GUARANTY TRUST COMPANY OF NEW YORK (the "Bank"), ON DEMAND at its office at 60 Wall Street, New York, New York 10260-0060, U.S.A., for the account of its Lending Office (as hereinafter defined), in lawful money of the United States of America in same day funds (or in such funds as may from time to time become customary for the settlement of international transactions in U.S. dollars), the lesser of (i) U.S. \$4,000,000.00 or (ii) the then-outstanding principal amount of each loan (the "Loan" or "Loans") made by the Bank from time to time to the Borrower hereunder. The Borrower shall pay interest on the unpaid principal amount of each Loan until maturity on the dates and at a rate per annum as hereinafter set forth. As used herein, "Lending Office" means, (i) with regard to Loans bearing interest based on the Prime Rate (as hereinafter defined) (collectively, "Domestic Loans"), the office of the Bank located at 60 Wall Street, New York, New York or such other office as the Bank may designate, and (ii) with regard to Loans bearing interest based on the Eurodollar Rate (as hereinafter defined) (collectively, "Eurodollar Loans"), the Nassau (Bahamas) office of the Bank or such other office as the Bank may designate.

Interest based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 in a leap year) and paid for actual days elapsed (including the first day but excluding the last day). Interest based on the Eurodollar Rate shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Each Eurodollar Loan shall bear interest at a rate per annum (the "Eurodollar Rate") equal to the Adjusted Eurodollar Rate (as hereinafter defined) plus 1.500% (the Eurodollar Margin), payable on the last day of the Interest Period applicable thereto and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. The "Adjusted Eurodollar Rate" applicable to any Interest Period (as hereinafter defined) means a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 minus the Eurodollar Reserve Percentage. The "London Interbank Offered Rate" applicable to any Interest Period means the rate per annum at which deposits in U.S. dollars are offered to the Bank in the London interbank market at approximately 11:00 a.m. (London time) two business days prior to the first day of such Interest Period in an amount approximately equal to the principal amount of the Loan to which such Interest Period applies and for the period of time comparable to such Interest Period. The "Eurodollar Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on the Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of the Bank to United States residents). The Adjusted Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage. As used herein, the term "Interest Period" means the period beginning on the date of each Eurodollar Loan and ending on the numerically corresponding day in the calendar month One or three months after such date; provided, that if an Interest Period would otherwise end on a day which is not a business day it shall be extended to the next succeeding business day unless such business day falls in the next calendar month, in which case the Interest Period shall end on the next preceding business day; provided, further, that if the Bank shall not have received written notice to the contrary from the Borrower at least five business days prior to the end of an Interest Period the Borrower shall be deemed to have requested to select an Interest Period with a duration equal to that then ending. As used herein, the term "business day" means any day on which dealings in U.S. dollar

deposits are carried on in the London interbank market and on which commercial banks are open for domestic and foreign exchange business in London and New York City. Notice by the Bank to the Borrower of the rate of interest so determined shall be binding and conclusive upon the Borrower in the absence of manifest error.

Each Domestic Loan shall bear interest payable on the last day of each month at a rate per annum for each day equal to the rate of interest publicly announced by the Bank in New York City from time to time as its Prime Rate (the "Prime Rate") for such day, plus 0.000%.

The Borrower shall pay interest on the unpaid principal amount of each Loan after the maturity thereof and, to the extent permitted by law, on accrued and unpaid interest until paid at a rate per annum equal to the sum of 2% plus the Prime Rate.

If after the date of this Note any applicable rule, executive order, decree, regulation or interpretation is amended, modified, enacted or promulgated by any government or governmental authority so as to (i) change the basis of taxation of payments to the Bank or the Lending Office of the Bank extending a Eurodollar Loan (the "Eurodollar Lending Office") in respect to the principal of and interest on any Eurodollar Loan (except for changes in the rate of taxation on the overall net income of the Bank by the United States of America or the Eurodollar Lending Office of the Bank by the jurisdiction in which such Lending Office is located), or (ii) impose, modify or deem applicable any reserve, special deposit or similar requirement against any of the assets of, deposits with or for the account of, or credit extended by the Bank's Eurodollar Lending Office, or (iii) impose on the Bank (or its Eurodollar Lending Office) or the London interbank market any other conditions affecting any Loan, the Loans or this Note, and the result of any of the foregoing is to increase the cost to the Bank (or its Eurodollar Lending Office) of agreeing to make or making, funding or maintaining any Loan evidenced by this Note or would have the effect of reducing the rate of return on the capital of the Bank or any entity controlling the Bank (its "Parent") as a consequence of agreeing to make any Loan, or to reduce the amount of any sum receivable by the Bank (or its Eurodollar Lending Office) on this Note, then the Borrower shall pay to the Bank or its Parent upon demand such amount as will compensate the Bank or its Parent for such additional cost or reduction in return. A certificate of the Bank setting forth the basis for the determination of any amount necessary to compensate the Bank or its Parent as aforesaid shall be conclusive as to the determination of such amount in the absence of manifest error.

If, after the date of this Notice, the introduction of, or any change in, any applicable law, rule or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof or compliance by the Bank (or its Eurodollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority shall make it unlawful or impossible for the Bank (or its Eurodollar Lending Office) to make, maintain or fund its Eurodollar Loans, the Bank forthwith shall so notify the Borrower. Upon receipt of such notice, the Borrower shall prepay in full the then outstanding principal amount of each Eurodollar Loan, together with accrued interest thereon, either (a) on the last day of the Interest Period applicable thereto if the Bank may lawfully continue to maintain and fund such Loan to such day or (b) immediately if the Bank may not lawfully continue to fund and maintain such Loan to such day.

Eurodollar Loans may not be repaid at the Borrower's option on a date other than the last day of an Interest Period. If, however, the Borrower makes any payment of principal of any Eurodollar Loan on any day other than the last day of the Interest Period applicable thereto, the Borrower shall reimburse the Bank on demand for any loss or expense incurred by it as a result of the timing of such payment, including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, provided that the Bank shall have delivered to the Borrower a certificate as to the amount of such loss, which certificate shall be conclusive in the absence of manifest error.

Domestic Loans may be prepaid at any time without penalty or premium.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The non-exercise by the Bank of its rights

hereunder in any particular instance shall not constitute a waiver of any right in any subsequent instance.

The holder of this Note shall, and is hereby authorized by the Borrower to, endorse on the schedule forming a part hereof appropriate notations evidencing the date and the amount of each Loan made by the Bank, the date and amount of each payment of principal, whether such Loan is a Domestic or Eurodollar Loan and, in the case of Eurodollar Loans, the Eurodollar Rate applicable thereto.

If this Note is not paid in full when due the Borrower agrees to pay all costs and expenses of collection including reasonable attorney's fees.

To secure payment of this Note, the Borrower hereby transfers, pledges, gives a security interest in and delivers to the Bank all present and future contents of the Borrower's

USA Treasuries in Morgan Custody Account C88659

, all proceeds and products thereof, accessions thereto and substitutions therefor (the "Collateral").

Upon the nonpayment of any amount when due hereunder, the holder shall have the rights and remedies provided in the Uniform Commercial Code in force in New York at the date of execution of this Note and in addition to, in substitution for, in modification of, or in conjunction with those rights and remedies, the holder or its agents may, in its discretion, sell, assign and deliver all or any part of the Collateral at any broker's board or at public or private sale without notice or advertisement, and bid and become purchasers at any public sale or at any broker's board, and, if notice to the Borrower is required by law, give written notice to the Borrower five days prior to the date of public sale of the Collateral or prior to the date after which private sale of the Collateral will be made by mailing such notice to the address designated by the Borrower with the Borrower's signature below. The Borrower agrees that the proceeds of the disposition of the collateral may be applied by the holder to the satisfaction of the liabilities of the Borrower to the holder in any order of preference which the holder, in its sole discretion, chooses, and that the excess, if any, shall be returned to the Borrower, which shall continue liable to the holder for any deficiency remaining with interest thereon. The waiver or remedying of any default shall not operate as a waiver of the default remedies or any other prior or subsequent default.

The undersigned, if more than one, shall be jointly and severally liable hereunder and the term "Borrower" shall mean the undersigned or any one or more of them and their heirs, executors, administrators, successors and assigns.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK. THE BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS NOTE OR ANY AGREEMENT RECEIVED BY THE BANK IN CONNECTION HEREWITH. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH THE BORROWER MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN IN AN INCONVENIENT FORUM. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY AGREEMENT RECEIVED BY THE BANK IN CONNECTION HEREWITH.

SIGNATURE:

/s/ _____ /s/ _____

Charles E. Harris
Chairman & CEO
Harris & Harris Group, Inc.

Mel P. Melsheimer
President & COO
Harris & Harris Group, Inc.

Address: One Rockefeller Plaza
Suite 1430
New York, NY 10020

Address: One Rockefeller Plaza
Suite 1430
New York, NY 10020

CORPORATE CERTIFICATE-BORROWING

I HEREBY CERTIFY to MORGAN GUARANTY TRUST COMPANY OF NEW YORK that at a meeting of the Board of Directors of Harris & Harris Group, Inc., a corporation organized under the laws of New York, duly called and held on the 24th day of December, 1997, the following resolutions were duly adopted and are now in full force and effect:

RESOLVED, that any (specify number) two of the following officers or designated signers of this corporation.

(In this space officers and other persons authorized to sign must be identified by name or title. It is suggested that titles, instead of names of officers be used unless it is desired that only certain officers of given rank may sign. The names of all those listed by title must appear below in the certified list of officers.)

Charles E. Harris Chairman, Chief Executive Officer &
Chief Compliance Officer

Mel P. Melsheimer President, Chief Operating Officer &
Chief Financial Officer

Rachel M. Pernia Vice-President, Treasurer, Controller
& Secretary

are authorized:

1. To borrow from time to time, on behalf of this corporation, from MORGAN GUARANTY TRUST COMPANY OF NEW YORK such sums of money, for such periods of time and upon such terms as may to them in their discretion seem advisable; and, to execute in the name and on behalf of this corporation notes, drafts, acceptances or other obligations of this corporation to evidence such borrowings; and, to enter into agreements, and amendments to such agreements, in the name and on behalf of this corporation with MORGAN GUARANTY TRUST COMPANY OF NEW YORK with respect to such borrowings, said agreements and amendments to contain such provisions as the signer shall approve and his or her signature thereon shall be conclusive evidence of such approval;

2. to discount with MORGAN GUARANTY TRUST COMPANY OF NEW YORK any bills or notes receivable held by this corporation upon such terms as they may deem proper, with full authority to endorse the same in the name of this corporation;

3. to apply for and obtain from MORGAN GUARANTY TRUST COMPANY OF NEW YORK letters of credit and to execute applications, agreements, trust receipts and all other documents in connection therewith;

4. to execute and deliver, in their discretion, all guarantees, indemnity agreements and other undertakings on behalf of this corporation; and

5. to pledge any of the bonds, stocks or other securities, bills receivable, bills of lading, warehouse receipts, accounts receivable or other property of this corporation, for the purpose of securing any of the foregoing transactions or any transaction entered into by any other entity or person, to endorse said securities and/or to issue appropriate powers of attorney, documents or assignments in furtherance thereof.

RESOLVED, that loans, discounts, credits, guarantees, indemnities and other agreements heretofore effected and at present outstanding with MORGAN GUARANTY TRUST COMPANY OF NEW YORK, and endorsements, powers of attorney, assignments, pledges and all agreements and documents made and issued in accordance therewith be and hereby are ratified and confirmed; that MORGAN GUARANTY TRUST COMPANY OF NEW YORK may act upon all instructions for the sale, delivery or other disposition of any collateral at any time held when given by the above-named signers; and that the foregoing powers and authority will continue until written notice of revocation has been given to and received by MORGAN GUARANTY TRUST COMPANY OF NEW YORK.

I also certify that the following are officers, etc., of this corporation elected or appointed to act until their successors are elected or appointed:

(If signers are designated by title in the first resolution set forth above, please list below the names of those individuals having the designated title who are to sign. If signers are designated by name rather than title in the resolution, the following list need not be completed.)

Title	Name
Chairman, Chief Executive Officer & Chief Compliance Officer	Charles E. Harris
President, Chief Operating Officer & Chief Financial Officer	Mel P. Melsheimer
Vice President, Treasurer, Controller & Secretary	Rachel M. Pernia

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of the above-named corporation and affixed its corporate seal this 24th day of December, 1997.

/s/

Rachel M. Pernia, Secretary
(The above certification must be confirmed by a second corporate officer if the Secretary is authorized to sign alone on behalf of the corporation pursuant to the first resolution set forth above.)

Confirmed by

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Statement of Purpose for an Extension of Credit
Secured by Margin Stock

Morgan Guaranty Trust Company of New York

Name of Bank

(Federal Reserve Form U-1)

This form is required by law (15 U.S.C. Sections 78g and 78w; 12 CFR 221)

Instructions

1. This form must be completed when a bank extends credit in excess of \$100,000 secured directly or indirectly, in whole or in part, by any margin stock.
2. The term "margin stock" is defined in Regulation U (12 CFR 221) and includes, principally: (1) stocks that are registered on a national securities exchange or that are on the Federal Reserve Board's List of Marginable OTC Stocks; (2) debt securities (bonds) that are convertible into margin stocks; (3) any over-the-counter security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security); and (4) shares of mutual funds, unless 95 per cent of the assets of the fund are continuously invested in U.S. government, agency, state, or municipal obligations.
3. Please print or type (if space is inadequate, attach separate sheet).

Part 1 To be completed by borrower(s).

1. What is the amount of the credit being extended? \$4,000,000 = Four Million Dollars
2. Will any part of this credit be used to purchase or carry margin stock?
Yes ___ No X

If the answer is "no", describe the specific purpose of the credit. WORKING CAPITAL

I (we) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete, and that the margin stock and any other securities collateralizing this credit are authentic, genuine, unaltered, and not stolen, forged, or counterfeit.

Signed:

/s/

Rachel M. Pernia 12/30/97
Harris & Harris Group, Inc.

This form should not be signed in blank.

A borrower who falsely certifies the purpose of a credit on this form or otherwise willfully or intentionally evades the provisions of Regulation U will also violate Federal Reserve Regulation X "Borrower of Securities Credit."

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

between

HARRIS & HARRIS GROUP, INC.

and

CHARLES E. HARRIS

dated as of January 1, 1998

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

Charles E. Harris

AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") dated as of January 1, 1998, between HARRIS & HARRIS GROUP, INC. (the "Company"), a New York corporation, and CHARLES E. HARRIS (the "Executive")

WITNESSETH THAT:

WHEREAS, the Executive is currently serving as Chairman and Chief Executive Officer of the Company, pursuant to an Employment Agreement dated as of August 15, 1990; and

WHEREAS, the agreement dated as of August 15, 1990 has been amended as of June 30, 1992, January 6, 1993, and June 30, 1994 (as amended, the Prior Agreement); and

WHEREAS, the Company and the Executive wish to make additional changes to the Prior Agreement; and

WHEREAS, the Company and the Executive desire therefore to amend and restate the Prior Agreement;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

1. Employment. The Company shall employ the Executive, and the Executive shall be employed by the Company, for the Period of Employment provided in paragraph 3(a) below and upon the other terms and conditions set forth in this Agreement.

2. Position and Responsibilities. During the Period of Employment, the Executive shall:

(a) Serve as the Chairman and Chief Executive Officer of the Company;

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(b) Be responsible for the general management of the affairs of the Company and all its subsidiaries, reporting directly to the Board of Directors of the Company (the "Board");

(c) Serve as a member of the Board for the period for which he is and shall from time to time be elected or reelected; and

(d) Serve, if elected, as President of the Company and as an officer and director of any subsidiary or affiliate of the Company.

3. Terms and Duties

(a) Period of Employment. The period of the Executive's employment under this Agreement (the "Period of Employment") commenced August 15, 1990 and shall terminate December 31, 1999 or until it ceases or is terminated sooner as provided in paragraph 6(a) (disability), 7 (death), or 8(c)

(termination of employment).

(b) Duties. Throughout the Period of Employment (except for illness or incapacity and vacation periods) the Executive shall perform and discharge well and faithfully the duties which the Board may assign to him from time to time. Subject to the foregoing, nothing in this Agreement shall preclude the Executive from devoting time to other employment or other investments. The Company specifically acknowledges that the Executive may seek to start a health care investment business with Julie Kim and others, in which the Company would have no interest, involving investing in publicly traded companies, notwithstanding any other language in this Agreement.

4. Compensation. For all services rendered by the Executive in any capacity during the Period of Employment, including, without limitation, services as an executive, officer, director or member of any committee of the Company or of any subsidiary, affiliate or division of the Company, the Company shall compensate the Executive as described in paragraphs (a) through (e) below. For purposes of this Section 4, the term "Board" shall mean either the Board of Directors of the Company or a committee of the Board of Directors (i.e., the Compensation Committee of the Board of Directors).

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(a) Base Salary. Notwithstanding any other language with respect to Base Salary in this Employment Agreement, the Company shall pay the Executive a fixed salary (the "Base Salary") at an annual rate of not less than \$200,000, effective January 1, 1998. On January 1, 1999, and on each January 1 thereafter during the Period of Employment, the Base Salary shall be increased so that the new Base Salary equals the product of the Base Salary in effect on the immediately preceding December 31 times the quotient obtained by dividing A by B where:

"A is the Consumer Price Index, All Urban Consumers (CPI-U), U.S. City Average for All Items (standard reference base period 1982-84 = 100) (the "CPI"), as published during the September immediately preceding the January 1 with respect to which the increased Base Salary is being computed; and

B is the CPI as published during the September twelve months prior to the September referred to in "A" above. If during the Period of Employment the United States Bureau of Labor Statistics (the "Bureau") ceases publication of the CPI, the calculations required hereby shall thereafter be made using the consumer price index published by the Bureau (or any successor agency of the federal government) that is most nearly equivalent to the CPI."

(b) Discretionary Base Salary Increases. At any time or from time to time during the Period of Employment, the Board may increase the Base Salary to an amount exceeding the Base Salary determined pursuant to paragraph 3(a) above. Following any such discretionary increase in the Base Salary, the Board may or may not maintain the Base Salary at that increased level (or further increase the Base Salary beyond that level). But in no event shall the Base Salary in effect for any portion of the Period of Employment be an annual amount less than the amount determinable in accordance with paragraph 3(a) above.

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(c) Additional Benefits. In addition, the Executive shall be entitled to participate in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which any salaried employees are eligible under any plan or program, now or hereafter established and maintained by the Company for salaried employees (which shall be comparable to those provided to senior officers of other comparable companies), to the extent permissible under the general terms and provisions of such plans or programs and in accordance with the provisions thereof, including group hospitalization, health, dental care, life or other insurance, tax-qualified pension, savings, thrift and profit-sharing plans, termination pay programs, sick-leave plans, travel or accident insurance, disability insurance, auto allowance or auto lease plans, and executive contingent compensation plans, including, without limitation, capital accumulation programs and stock purchase, restricted stock or stock option plans. Specifically, but without limitation, the Company shall furnish the Executive, with (1) cash reimbursement for the

cost of total life insurance for the benefit of the Executive's designated beneficiary in the amount of at least \$2,000,000 (2) supplemental uninsured medical reimbursement plan coverage of \$5,000 for expenses incurred by the Executive or his covered dependents which are not covered by the Company's group hospitalization, health and dental care insurance plans, provided that this \$5,000 limit shall be increased so that on a cumulative basis, such limit equals the product of \$5,000 multiplied times the quotient (the "CPI Factor") obtained by dividing the CPI published during the most recent September by the CPI published for September, 1991, and (3) disability insurance (through an insurance carrier and/or self-insured by the Company) for the benefit of the Executive in the amount of 100% of his base salary.

(d) Perquisites. The Company shall also furnish the Executive, without cost to him, with (1) a Company-owned or leased automobile which will be replaced with a new automobile every four years, provided that the Executive may select the automobile and, if the value of the automobile selected by the Executive is greater than \$40,000 times the CPI Factor, the Executive shall pay to the Company, each month during which he shall have use of the automobile, the difference between the monthly market rental of the vehicle being furnished to the Executive and the monthly market rental of an

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automobile with a value of \$40,000 time the CPI Factor; and (2) membership in one health club, one luncheon club, and one social or country club of the Executive's choosing. The Company shall also reimburse the Executive for the cost of (1) an annual physical examination of the Executive by a physician selected by the Executive, and (2) personal financial, investment or tax advice, not to exceed \$2000 times the CPI Factor per annum. The Executive shall properly document such costs for federal income taxation purposes to preserve any deduction for such reimbursements to which the Company may be entitled.

5. Business Expenses. The Company shall pay or reimburse the Executive for all reasonable travel or other expenses incurred by the Executive in connection with the performance of his duties and obligations under this Agreement, including, without limitation, routine and necessary costs of maintaining the automobile (including garage space) provided to the Executive by the Company pursuant to paragraph 4(d) above, subject to the Executive's presentation of appropriate vouchers in accordance with such procedures as the Company may from time to time establish for senior officers and to preserve any deductions for federal income taxation purposes to which the Company may be entitled.

6. Disability.

(a) In the event of the disability of the Executive during the Period of Employment, the Company shall, subject to the provisions of the next following sentence, continue to pay to the Executive the compensation provided in paragraph 4 above during the period of his disability. But if the Executive's disability continues until the Executive becomes entitled to receive the proceeds of the disability insurance described in paragraph 4(c) above (the "Disability Period"), the Company may, at its election, terminate the Period of Employment in which event the Company's obligation to make payments under paragraph 4 shall cease, except for earned but unpaid Base Salary, incentive compensation awards (if any) and Retirement Benefits, which shall be payable on a pro-rated basis for the year in which such disability is determined. However, the benefits described in paragraph 4(c) and the perquisites described in paragraph 4(d), shall continue to be provided for a period of ten years, except that the Company shall only continue to provide the automobile described in paragraph 4(d) for six months following termination

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of the Period of Employment and then allow the Executive to assume (without any continuing obligations under the lease, if any, on the part of the Company) the Company's rights and obligations to lease or purchase such automobile (to the extent any lease is so assumable) or to purchase such automobile at its then book value.

(b) During the period the Executive is receiving payments, either under paragraph 6 or under the disability insurance described in paragraph 4(c) above, to the extent that he is physically and mentally able to do so, he shall furnish information and assistance to the Company and, upon a reasonable request in writing by the Board from time to time, he shall make himself available to the Company to undertake reasonable assignments consistent with the dignity, importance, and scope of his prior position with the Company and his physical and mental health. During the Disability Period, the Executive shall report directly to the Board. If the Company fails to make a payment or provide a benefit required under paragraph 6(a), the Executive's obligation to furnish information and assistance and undertake assignments shall terminate.

(c) Upon any cessation of payments under the disability insurance described in paragraph 4(c) above, the Company shall also pay to the Executive or his wife, if he predeceases her during such period, for a period of three years the Base Salary amount that existed at the time of the Disability Period in the form of severance or disability benefits, or both, in the manner and at the times provided in paragraph 4(a) above.

(d) If the Executive dies during the Disability Period the Company shall pay his wife, if she survives him, for a period of two years the Base Salary amount that existed at the onset of the disability in the form of a death benefit, in the manner and at the times provided in paragraph 4(a) above.

(e) As used in this Agreement, the term "disability" shall have the following meaning:

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Executive is unable to perform with reasonable continuity the material duties of his position with the Company as a result of sickness, illness, or accidental bodily injury.

7. Death. If the Executive dies during the Period of Employment, the Executive's designated beneficiary shall be entitled to receive the proceeds of any life or other insurance or other death benefit program provided pursuant to paragraph 4(c) above in accordance with the provisions thereof, and the Period of Employment and the Company's obligation to make payments under paragraph 4 shall cease as of the date of death, except for earned but unpaid Base Salary, incentive compensation awards (if any) and Retirement Benefits, which shall be payable on a pro-rated basis for the year in which such death occurs. The Company shall pay the Executive's wife, if she survives him, for a period of two years the Base Salary amount that existed at the time of death in the form of a death benefit, in the manner and at the times provided in paragraph 4(a) above.

8. Effect of Termination of Employment.

(a) If the Executive's employment hereunder terminates because of either a Without Cause Termination or Constructive Discharge, the Company shall, as liquidated damages or severance pay, or both, pay to the Executive two times his Base Salary in effect at the time of such termination, in the manner and at the times provided in paragraph 4(a) above to the Executive or, in the event of his subsequent death, to the residuary beneficiary named in the Executive's Last Will or in accordance with the laws of intestacy. Such payments shall commence immediately following such termination and shall continue for a period of time equal to the remainder of the Period of Employment at the time of such termination (the "Severance Period"). In addition, earned but unpaid Base Salary and incentive compensation awards (if any) shall be payable on a pro-rated basis for the year in which such termination occurs, and benefits described in paragraph 4(c) and the perquisites described in paragraph 4(d) shall continue to be provided during the Severance Period, except that the Company shall only continue to provide the automobile described in paragraph 4(d) for six months following such termination and then allow the Executive to assume (without any continuing obligations under the lease, if any, on the part of the

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Company) the Company's rights and obligations to lease or purchase such

automobile (to the extent any lease is so assumable) or to purchase such automobile at its then book value. To the extent that the Executive is entitled to receive cash compensation that is (or would be, if any elective deferral were disregarded) subject to federal income taxation in respect of any other employment or a consulting position with another company during the Severance Period, the payments to be made pursuant to this paragraph 8(a) shall be correspondingly reduced by such cash compensation and, to the extent that benefits of the kind required by this paragraph 8(a) to be continued are payable in respect of such other employment or consulting position, such benefits shall be deemed the primary coverage for purposes of coordination of benefits and avoiding duplication of benefits. However, at no time shall such benefits of a kind described herein, be less than those required by this paragraph 8(a) or paragraphs 4(c) and 4(d).

(b) If the Executive's employment hereunder terminates because of a Termination for Cause, earned but unpaid Base Salary shall be payable on a pro-rated basis for the year in which such termination occurs and earned but unpaid incentive awards for any prior years shall be payable in full, but no other payments shall be made, or benefits provided, by the Company.

(c) Upon any termination of the Executive's employment other than because of death or disability, the Period of Employment and the Company's obligation to make payments under paragraph 4 above shall cease as of the date of termination except to the extent expressly provided in paragraph 8.

(d) As used in this Agreement:

1. "Termination for Cause" means a termination of the Executive's employment by the Company, by written notice to the Executive, specifying the event relied upon for such termination, because of the Executive's serious, willful misconduct in respect of his duties under this Agreement, including, without limitation, conviction of a felony or for perpetration of a common law fraud which has resulted in material economic damage to the Company or any of its subsidiaries or affiliates.

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2. "Constructive Discharge" means a termination of the Executive's employment by the Executive because of (A) a failure of the Company to fulfill its obligations under this Agreement in any material respect, including any failure to elect or reelect or to appoint or reappoint the Executive to the offices of Chairman of the Company and its Chief Executive Officer or as a member of the Board or other material change by the Company in the functions, duties, or responsibilities of the Executive's position with the Company which would reduce the ranking or level, dignity, responsibility, importance, or scope of such position, or (B) any assignment or reassignment by the Company of the Executive to a place of employment other than the Company's headquarters, (which shall be located in New York, New York, or other location of the Executive's choosing). A Constructive Discharge shall apply to any case in which the Company shall have failed to remedy within 30 days from delivery to the Company of a written demand by the Executive that it do so, which demand shall specify the circumstances being relied upon for termination pursuant to this paragraph 8(d).

3. "Without Cause Termination" means a termination of the Executive's employment by the Company other than because of disability or expiration of the Period of Employment and other than a Termination for Cause. The exercise by the Company or the Executive, as the case may be of a right to terminate the Executive's employment under this paragraph 8(d) shall not abrogate the rights and remedies of the terminating party in respect of the circumstances giving rise to such termination.

9. Other Duties of Executive During and After Period of Employment.

(a) The Executive shall, upon reasonable notice, during or after the Period of Employment, furnish such information as may be in his possession to, and cooperate with, the Company, as the Company may reasonably request in connection with the analysis, negotiation, and settlement of any pending claims and any litigation in which the Company or any of its subsidiaries or affiliates, is, or may become, a party.

(b) The Executive recognizes and acknowledges that all information pertaining to the affairs, business, or clients of the Company or any of its subsidiaries or affiliates, as such information may exist from time to time, is confidential information and is a unique and valuable asset of the Company, access to and knowledge of which are essential to the performance of the Executive's duties under this Agreement. The Executive shall not, during the Period of Employment or thereafter, except to the extent reasonably necessary in the performance of his duties under this Agreement, divulge to any person, firm, association, corporation or governmental agency, any information concerning the affairs, business, clients, or customers of the Company or any of its subsidiaries or affiliates (except such information as it is required by law to be divulged to a government agency), or make use of any such information for his own purposes or for the benefit of any person, firm, association or corporation (except the Company or its subsidiaries or affiliates) and shall use his best efforts to prevent the disclosure of any such information by others. All records, memoranda, letters, books, papers, reports, accountings, experience or other data, and other records and documents relating to the business of the Company or any of its subsidiaries or affiliates, whether made by the Executive or otherwise coming into his possession, are confidential information and are, and shall be, and shall remain the property of the Company.

(c) During the Period of Employment and for a one year period thereafter in the event of a Termination for Cause, a termination of the Executive's employment by the Executive during the Period of Employment that is not a Constructive Discharge, or the disability of the Executive, the Executive shall not:

Make any statement or perform any act intended to advance an interest of any existing or prospective competitor of the Company or any of its subsidiaries or affiliates in any way that will injure an interest of the Company or any of its subsidiaries or affiliates in its relationship and dealings with existing or potential clients, customers or brokers or to do any act that is disloyal to the Company or inconsistent with the Company's interests or in violation of any provision of this Agreement.

(d) The Company's obligation to make payments under paragraph 4 shall cease upon any violation of the preceding provisions of this paragraph 9 which is not inadvertent and which has resulted in material economic damage to the Company or any of its subsidiaries.

10. Retirement Benefits. The Executive and his spouse and dependents shall be entitled to medical and health insurance if at the time of retirement he has ten years of service with the Company and has attained 50 years of age or has fifteen years of service with the Company and has attained 45 years of age. The coverage shall be secondary to any government provided or subsequent employer provided health insurance plans. The Executive and the Company shall be parties to a contract delineating in detail the medical and health insurance benefit described above.

11. Indemnification, Litigation.

(a) In the event of any litigation or other proceeding between the Company and the Executive with respect to the subject matter of this Agreement and the enforcement of rights hereunder, the Company shall reimburse the Executive for all costs and expenses relating to such litigation or other proceeding, including reasonable attorneys' fees and expenses, provided that such litigation or proceeding results in any:

(1) Settlement requiring the Company to make a payment to the Executive; or

(2) Judgment, order, or award in favor of the Executive, regardless of whether such judgment, order, or award is subsequently reversed on appeal or in a collateral proceeding.

(b) In no event shall the Executive be required to reimburse the

Company for any of the costs and expenses relating to such litigation or other proceeding.

12. Withholding Taxes. The Company may directly or indirectly withhold from any payments made under this Agreement all federal, state, city, or

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other taxes as shall be required pursuant to any law or governmental regulation or ruling.

13. Effect of Prior Agreements. This Agreement between the Company and the Executive contains the entire understanding between the Company and the Executive with respect to the subject matter hereof and supersedes any prior employment agreement (including the "Prior Agreement") between the Company or any predecessor of the Company and the Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to the Executive of a kind elsewhere provided and not expressly provided in this Agreement.

14. Consolidation, Merger, or Sale of Assets. Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder. Upon such a consolidation, merger, or transfer of assets and assumption, the term "Company" as used herein shall mean such other corporation and this Agreement shall continue in full force and effect.

15. Notices. All notice, requests, demands, and other communications required or permitted hereunder shall be given in writing and shall be deemed to have been duly given if hand delivered or mailed, postage prepaid by same day or overnight mail as follows:

(a) To the Company: Harris & Harris Group, Inc.
One Rockefeller Plaza, Suite 1430
New York, NY 10020
Attn.: Secretary

(b) To the Executive: Charles E. Harris
641 Fifth Avenue, #40D
New York, NY 10022

or to such other address as either party shall have previously specified in writing to the other.

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16. No Attachment. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect. But nothing in this paragraph 16 shall preclude the executors, administrators, or other legal representatives of the Executive from assigning any rights hereunder to the person or persons entitled thereto.

17. Binding Agreement. This Agreement shall benefit and bind (a) the Executive, his heirs, beneficiaries, and personal representatives, and (b) the Company and its successors and assigns.

18. Severability. If any provision of this Agreement shall be held or deemed to be invalid, inoperative or unenforceable in any jurisdiction or jurisdictions, because of conflicts with any constitution, statute, rule or public policy or for any other reason, such circumstance shall not have the effect of rendering the provision in question unenforceable in any other jurisdiction or in any other case of circumstance or of rendering any other provisions herein contained unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule or public policy, but this Agreement shall be reformed and construed in any such jurisdiction or case as if such invalid, inoperative, or unenforceable provision had never been contained herein and such provision reformed so that it would be enforceable to the maximum extent

permitted in such jurisdiction or in such case.

19. Modification and Waiver. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto. No terms or condition of the Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement except by written instrument signed by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived.

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20. Headings of No Effect. The paragraph headings contained in this Agreement are included solely for convenience of reference and shall not in any way affect the meaning or interpretation of any of the provisions of this Agreement.

21. Governing Law. The laws of New York shall govern the validity, construction, and interpretation of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and its seal to be affixed hereunto by its duly authorized officers, and the Executive has signed and delivered this Agreement, all as of January 1, 1998, but actually on the dates set forth below.

HARRIS & HARRIS GROUP, INC.

By:

Title:

Date:

ATTEST:

Secretary

Date:

Charles E. Harris

Date:

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SEVERANCE COMPENSATION AGREEMENT

THIS AGREEMENT, made effective as of August 15, 1990 by and between Harris & Harris Group, Inc., a New York corporation (the "Company"), and Charles E. Harris (the "Executive").

WHEREAS, the Company and the Executive are parties to an employment agreement effective as of August 15, 1990 (the "Employment Agreement") providing for the employment of the Executive by the Company for a period and upon the other terms and conditions therein stated; and

WHEREAS, the Company considers the maintenance of a sound and vital senior management to be essential to protecting and enhancing the interests of the Company and its shareholders; and

WHEREAS, the Company recognizes that, as is the case with many publicly owned corporations, the possibility of a change in control of the Company may arise and that such possibility, and the uncertainty and questions which it may raise among senior management, may result in the departure or distraction of senior management personnel to the detriment of the Company and its shareholders; and

WHEREAS, accordingly the Company has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's senior management to their assigned duties and long-range responsibilities without distraction in circumstances arising from the possibility of a change in control of the Company; and

WHEREAS, the Company believes it important and in the best interests of the Company and its shareholders, should the Company face the possibility of a change in control, that the senior management of the Company be able to assess and advise the Board of Directors of the Company whether such a proposed change in control would be in the best interests of the Company and its shareholders and to take such other action regarding such a proposal as the Board of Directors might determine to be appropriate, without senior management being influenced by the uncertainties of their own employment situations; and

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WHEREAS, in order to induce the Executive to remain in the employ of the Company in the event of any actual or threatened change in control of the Company, the Company has determined to set forth the severance benefits which the Company will provide to the Executive under the circumstances set forth below;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Definitions.

(a) All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Employment Agreement.

(b) "Change in Control" shall mean the occurrence of any of the following events:

(i) any person, within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or group of persons, within the meaning of Exchange Act Rule 13d-5, other than the Company or any of its subsidiaries, becomes a beneficial owner, directly or indirectly, of thirty percent (30%) or more in voting power or amount of the Company's then outstanding equity securities, without the approval of not less than two-thirds of the Board in existence prior to such ownership;

(ii) individuals who constitute the Board on any day (the "Incumbent Board") cease for any reason other than their deaths or resignations to constitute at least a majority of the Board on the following day (which day shall be considered the day upon which occurs the Change in Control), provided that any individual becoming a director subsequent to the date of this Agreement whose election or nomination for election by the Company's shareholders was approved by a vote of not less

than three-quarters of the Incumbent Board or not less than two-thirds of the then incumbent Nominating Committee of the Board shall be for purposes of this subsection considered as though such person were a member of the Incumbent Board;

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(iii) The necessary majority of the Company's shareholders approve any reorganization (other than a mere change in identity, form or place of organization of the Company, however effected), merger or consolidation of the Company, or any other transaction with one or more business entities or persons as a result of which the stock of the Company is exchanged for or converted into cash or property or securities not issued by the Company, or as a result of which there is a change in ownership of existing equity securities of the Company or issuance of new equity securities of the Company (or the right or option to acquire such equity securities) which equals or exceeds thirty percent (30%) in voting power or amount of the equity securities of the Company outstanding upon completion of such transaction, unless such reorganization, merger consolidation or other transaction shall have been affirmatively recommended to the Company's shareholders by not less than two-thirds of the Incumbent Board;

(iv) the necessary majority of the Company's shareholders approve the sale of (or agreement to sell or grant of a right or option to purchase as to) all or substantially all of the assets of the Company to any person or business entity, unless such sale or other transaction shall have been affirmatively recommended to the Company's shareholders by not less than two-thirds of the Board;

(v) the dissolution or liquidation of the Company;

(vi) the occurrence of any circumstance having the effect that persons who were nominated for election as directors by the Board shall fail to become directors of the Company other than because of their death or withdrawal;

(vii) a change in control of a nature that would be required to be reported in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Exchange Act, unless such change in control is approved by not less than two-thirds of the Board in existence prior to such change in control;

(viii) such other events as the Board may designate.

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2. Termination of Employment

If the Executive is an employee of the Company on the day before a Change in Control and the Executive's employment with the Company is terminated (i) by the Executive or (ii) by the Company as a Without Cause Termination, in either case within one year from the date of such Change in Control, the Company hereby agrees to provide to the Executive the following benefits:

(a) a lump sum payment, payable in cash, cashier's check or by wire, within ten (10) business days from the date of such termination of employment equal to 2.99 times the Executive's average base salary, incentive compensation, bonus and any other amounts which may be included in the Executive's income as compensation from the Company) over the most recent five (5) years (or such lesser time as the Executive was employed by the Company as an employee) preceding the year in which occurred the Change in Control;

(b) a lump sum payment, payable in cash, cashier's check or by wire, within ten (10) business days from the date of such termination of employment in an amount equal to such termination of employment in an amount equal to any amounts forfeited, on account of such termination of employment, under any employee pension benefit plan, as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained or contributed to by the Company and participated in by the Executive at any time between the day before the Change in Control and the day of the Executive's termination of employment;

(c) to the extent not otherwise payable to the Executive, continued coverage of the Executive and the Executive's beneficiaries for a period extending through the latter of the date the Executive commences any subsequent full-time employment for pay and the date that is three (3) years after the Executive's termination of employment, under all employee welfare benefit plans, as defined in Section 3(1) of ERISA, maintained or contributed to by the Company and covering the Executive at any time between the day before the Change in Control and the day of the Executive's

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termination of employment; such continuation coverage shall (i) be provided at the expense of the Company to the extent so provided prior to the termination of employment, (ii) as of the time the coverage is being provided be identical to the highest level of coverage provided under each such plan to the Executive and the Executive's beneficiaries at any time between the day before the Change in Control and the day of the Executive's termination of employment, and (iii) not be conditioned upon, or discriminate on the basis or lack of, evidence of insurability; and

(d) in the event of the termination of employment by the Company that is a Without Cause Termination or a Constructive Discharge, all benefits provided for by the Employment Agreement under such circumstances, reduced by all benefits provided pursuant to (a) through (c) above.

3. No Obligation to Mitigate Damages; No Effect on Other Contractual Rights.

(a) The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by the Executive as the result of employment by another employer after the date of termination of his employment with the Company or otherwise.

(b) Except as expressly provided in Section 2(d), the provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, supersede, affect or in any way diminish the Executive's existing rights, or rights which would accrue solely as a result of the passage of time, under any applicable law or any pension benefit or welfare benefit plan, employment agreement or other contract, plan or arrangement.

4. Limitation on Benefits; Attorney's Fees; Interest

(a) Notwithstanding any provisions to the contrary in this Agreement, if any part of the payments provided for under Section 2 of this Agreement

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(the "Agreement Payments") would if paid constitute a "parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), then the Agreement Payments shall be payable to the Executive only if (i) the sum of the value of the Agreement Payments and of the value of all other to or for the benefit of the Executive that constitute "parachute payments" less the amount of any excise taxes payable under Code Section 4999, and any similar or comparable taxes in connection with such sum, is greater than (ii) the greatest value of payments in the nature of compensation contingent upon a change in control that could be paid at such time to or for the benefit of the Executive and not constitute a "parachute payment" (the "Alternative Payment"); otherwise, only the Alternative Payment shall be payable to the Executive. For purposes of this Section 4(a), the value of payments shall be determined in accordance with Code Section 280G(d)(4) and any regulations issued thereunder.

(b) The determination of the operation of Section 4(a) and of any reduction in benefits necessary thereunder shall be made by the Executive upon reasonable advice of the Executive's counsel or accountant, except that, should the Internal Revenue Service ever determine to the Executive's satisfaction that any of the payments provided under this Agreement constitute a "parachute payment," the Executive shall repay to the Company an amount sufficient at that time to prevent any of such payments from

constituting a "parachute payment". In any case in which the level of benefits provided for under this Agreement is reduced or not provided to the Executive on account of the operation of Section 4(a), the Executive may select those benefits which are to be reduced or not provided.

(c) If the Company shall fail to pay or provide at any time any benefits under this Agreement or under any benefit plan, agreement or arrangement established, agreed to or contracted for by the Company for the benefit of or with the Executive, the Executive shall be entitled to consult with independent counsel, and the Company shall pay the reasonable fees and expenses of such counsel for the Executive in advising him in connection therewith or in bringing any proceedings, or in defending any proceedings, involving the Executive's rights under this Agreement, such right to reimbursement to be immediate upon the presentment by the Executive of written

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billings of such reasonable fees and expenses. The Executive shall be entitled to interest at the "prime rate" established from time to time by the Bank of New York for any payments of such expenses, or any other payments following the Executive's termination of employment, that are overdue.

(d) The Company shall have the right to withhold from all payments due hereunder all income and excise taxes required to be withheld by applicable law and regulations.

5. Governing Law

This agreement shall be governed by and construed in accordance with the laws of the State of New York.

6. Miscellaneous

(a) If any rights pursuant to Section 2 above have accrued to the Executive prior to the Executive's death or a judicial determination of the Executive's incompetence, but have not been fully satisfied hereunder at the time of such event, such rights shall survive and shall inure to the benefit of the Executive's heirs, beneficiaries and legal representative. Otherwise, this Agreement shall terminate upon the Executive's death or a judicial determination of the Executive's incompetence.

(b) Nothing herein (other than as provided in Section 2(d)) shall be deemed to affect or alter the Executive's current employment status and the status of the Employment Agreement.

(c) In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions or portions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

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7. Notice.

All notices or communications hereunder shall be given in accordance with the requirements for notices contained in the Employment Agreement.

8. Amendment; Termination; Waiver.

No provisions of this Agreement may be amended, modified or waived and this Agreement may not be terminated unless such is authorized by a majority of the Board and agreed to in writing by the Executive; provided that if the term of the Employment Agreement, as such may be extended, expires, this Agreement shall simultaneously be terminated. No waiver by either party hereto of any breach by the other party hereto of any condition or any provision of this Agreement to be performed by such other party shall be deemed a waiver of a subsequent breach of such condition or provision or waiver of a similar or dissimilar condition or provision at the same time or any subsequent time.

9. Successors.

(a) Except as otherwise provided herein, the Company's rights, duties and obligations under this Agreement shall be binding upon and inure to the benefit of the Company and any successor of the Company, including, without limitation, any business entity or business entities acquiring directly or indirectly all or substantially all of the assets or shares of Stock whether by merger, consolidation, sale or otherwise -- and such successor shall thereafter be deemed the "Company" for all purposes of this Agreement -- but such rights, duties and obligations shall not otherwise be assignable by the Company.

(b) Within thirty (30) days following a Change in Control, the Company (including any successor of the Company) shall in writing affirm to the Executive its obligations under this Agreement, and any failure by the Company to so affirm this Agreement shall, for purposes of this Agreement only, be considered a Without Cause Termination.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and its seal to be affixed hereunto by its duly authorized officers, and the Executive has signed and delivered this Agreement, all as of August 15, 1990, but actually on the dates set forth below.

HARRIS & HARRIS GROUP, INC.

By:

Title:

Date:

ATTEST:

Secretary

Date:

Charles E. Harris
Executive

Date:

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HARRIS & HARRIS GROUP, INC.
EMPLOYEE PROFIT SHARING PLAN

Purpose of Plan

The purpose of this Plan is to provide a special incentive for designated employees ("Participants") of Harris & Harris Group, Inc. (the "Company") to increase the future profits of the Company, by allowing the Participants to share in the historical after-tax profits of the Company as set forth herein.

SECTION 1.

Definitions

As used herein, unless otherwise required by the context, the following terms shall have these meanings:

"Award Percentage" shall mean, with respect to Charles E. Harris, 13.790%; with respect to Mel P. Melsheimer, 4.233%; with respect to Rachel M. Pernia, 1.524%; with respect to Julie A. Kim, 0.381% and with respect to Jacqueline M. Matthews 0.072%.

"Award" shall mean an award made or due to a Participant pursuant to the provisions of the Plan.

"Capped Qualifying Income" for a Capped Participant for a particular year shall mean the net income after taxes of the Company as reflected in the tax returns of the Company for such year less the modified nonqualifying gain, if any. Modified nonqualifying gain is intended to reduce Qualifying Income by the portion of net after-tax realized gain allocable to increases in value after the time such person becomes a Capped Participant as well as by the amount of nonqualifying gain, and shall be so interpreted. The modified nonqualifying gain shall be the excess of (1) the sum, on a first-in first-out basis, of (a) the gain (net of costs of disposition) on the sale or other disposition of all or any portion of any portfolio investment position held by the Company on September 30, 1997 plus (b) such net gain with respect to all or any portion of any portfolio

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investment position acquired by the Company after September 30, 1997 and held on the date such person becomes a Capped Participant plus (c) such net gain with respect to all or any portion of any portfolio investment position acquired by the Company after the date such person becomes a Capped Participant less (2) the portion of the gain on assets in item 1(a) above attributable to sale proceeds in excess of the Fair Market Value of such position or portion thereof as of September 30, 1997 and not in excess of such Fair Market Value as of the end of the quarter ending on or prior the date such person became a Capped Participant and the portion of the gain on assets in item 1(b) above attributable to sale proceeds not in excess of the Fair Market Value of such position or portion thereof as of the end of the quarter ending on or prior to the date such person became a Capped Participant, less (3)(a) the amount of taxes attributable to the portion of the gain on assets in item 1(a) above attributable to sale proceeds not in excess of the Fair Market Value of such position or portion thereof as of September 30, 1997 and to the portion of such gain attributable to sale proceeds in excess of the Fair Market Value as of the end of the quarter ending on or prior to the date such person became a Capped Participant, (b) the amount of taxes attributable to the portion of the gain on assets in item 1(b) above attributable to sale proceeds in excess of the Fair Market Value as of the end of the quarter ending on or prior to the date such person became a Capped Participant and (c) the amount of taxes attributable to the gain on assets in item 1(c) above, less (4) an amount equal to the expenses of the Company (other than taxes and expenses of sale) multiplied by a fraction the numerator of which is the amount calculated pursuant to items (1) through (2) above and the denominator of which is the aggregate gross income of the Company for such year before expenses and taxes of any sort.

"Capped Participant" shall mean a person whose full participation in Qualifying Income has been terminated pursuant to this Plan.

"Company" shall mean Harris & Harris Group, Inc., a New York corporation.

"Fair Market Value" shall mean, with respect to any asset of the Company, the value thereof most recently determined by or under direction of the Board.

"Board" or "Board of Directors" shall mean the board of directors of the Company.

"Committee" shall mean the Compensation Committee of the Board. All references to the Board contained herein (other than for purposes of the

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definition of Fair market Value [and for purposes of Section 4 hereof]) shall be deemed to refer to such Committee, for so long as the Board delegates the administration of the Plan to the Committee. (1)

"Full Participant" shall mean, until such person shall become a Capped Participant, each of the following individuals: Charles E. Harris, Mel P. Melsheimer, Rachel M. Pernia, Julie A. Kim and Jacqueline M. Matthews.

"Participant" shall mean each Full Participant, each Capped Participant and any additional person named by the Board to be a participant.

"Plan" shall mean the Harris & Harris Group, Inc. Employee Profit Sharing Plan, as amended from time to time.

"Qualifying Income" shall mean the net income after taxes of the Company for a particular year as reflected in the tax returns of the Company for such year less the nonqualifying gain, if any. Nonqualifying gain is intended to reduce Qualifying Income by the portion of net after-tax realized gain allocable to value as of September 30, 1997, and shall be so interpreted. The nonqualifying gain shall be the excess of (1) the gain (net of the costs of disposition) on the sale or other disposition, on a first-in first-out basis, of all or any portion of any portfolio investment position held by the Company on September 30, 1997 less (2) the portion of such gain attributable to sale proceeds in excess of the Fair Market Value of such position or portion thereof as of September 30, 1997, less (3) the amount of taxes attributable to the portion of such gain attributable to sale proceeds not in excess of the Fair Market Value of such position or portion thereof as of September 30, 1997, less (4) an amount equal to the expenses of the Company for such year (other than taxes and expenses of sales) multiplied by a fraction the numerator of which is the amount calculated pursuant to items (1) through (2) above and the denominator of which is the aggregate gross income of the Company for such year before expenses and taxes of any sort.

[FN]

(1) We will need to make the Committee good for Code Section 162(m) purposes and obtain shareholder approval, if the Company is publicly traded and if we wish Awards to qualify for the 162(m) exemption.

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SECTION 2.

Amount of Award; Payment of Award

As soon as practicable following the end of each Plan Year, the Board shall determine whether, and if so, how much, Qualifying Income exists with respect to such Plan Year and whether, and if so, how much, Capped Qualifying Income exists with respect to any Capped Participant. The Board shall make a provisional determination, based on accruals provided by management, within 45 days after the end of each Plan Year.

Not later than 60 days after the end of each Plan Year the Company shall pay (1) to each Full Participant an Award in an amount equal

to the product of (a) 90% of the estimated Qualifying Income for such Plan Year, multiplied by (b) such Full Participant's Award Percentage and (2) to each Capped Participant an Award in an amount equal to the product of (a) 90% of the estimated Capped Qualifying Income for such Plan Year, multiplied by (b) such Capped Participant's Award Percentage. Not later than 45 days after filing of the Company's federal tax returns the Board shall finalize the foregoing determinations and pay any excess to the appropriate Participants. Any portion of the maximum amount authorized to be paid under this Plan that is not required for the foregoing payments may be paid to any or all of the Participants in such manner as the Board determines. Upon the termination of employment of any Full Participant for any reason other than termination by the Company for cause such Full Participant shall become a Capped Participant. If the Board terminates the employment of any Participant for cause, the participation of such former employee shall terminate and any Awards not yet earned shall automatically be forfeited.

Notwithstanding any other provision of the Plan, in no event shall the aggregate amount of all Awards payable for any Plan Year be greater than twenty percent (20%) of the Company's Qualifying Income. In the event that any portion of any Award may not be paid pursuant to the limitation set forth in the preceding sentence (a "prohibited payment"), each Participant's Award for such Plan Year shall be reduced, pro-rata, by the minimum amount necessary to allow the aggregate Awards for such fiscal year not to constitute a prohibited payment. If such a reduction is necessary, each Participant shall unconditionally forfeit the amount of any reduction made pursuant to this paragraph.

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SECTION 3.

Administration

The Plan shall be administered by the Compensation Committee of the Board, with decisions taken in accordance with its normal procedures. Members of such Committee shall not be liable for any acts or omissions to act in the administration of the Plan.

A secretary selected by the Committee shall keep full and accurate minutes of all meetings and records of the actions of the Committee, and these minutes and records shall be at all times open to inspection by the members of the Board of Directors. The Secretary shall periodically transmit to the Board certified copies of any statements or schedules prepared in connection with the administration of the Plan.

SECTION 4.

Amendment, Termination or Modification of the Plan

The Plan may be modified or amended from time to time or terminated by the Board and the Board may name additional persons to participate in the Plan; provided, however, that no such amendment, modification or termination of the Plan or naming of any additional participant shall adversely affect any Participant that has not consented to, such amendment, modification or termination.

Section 5.

General Provisions.

Compliance with Legal Requirements. The Plan and the granting and payment of Awards, and the other obligations of the Company under the Plan shall be subject to all applicable federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required.

Nontransferability. Awards not yet earned shall not be transferable in any circumstances. Awards earned but not yet paid shall not be transferable by a Participant except by will or the laws of descent and distribution.

No Right To Continued Employment. Nothing in the Plan or in any Award granted or other agreement entered into pursuant hereto shall confer upon any Participant the right to continue in the employ of the Company or to be entitled to any remuneration or benefits not set forth in the Plan or other agreement or to interfere with or limit in any way the right of the Company to terminate such Participant's employment.

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Withholding Taxes. Where a Participant or other person is entitled to receive a cash payment pursuant to an Award hereunder, the Company shall have the right to require the Participant or such other person to pay to the Company the amount of any taxes that the Company may be required to withhold before delivery to such Participant or other person of such payment.

Unfunded Status of Awards. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company.

Governing Law. The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of New York without giving effect to the conflict of laws principles thereof.

Effective Date. The Plan shall be effective on January 1, 1998; provided that all options theretofore granted by the Company shall have been exercised or cancelled.

Beneficiary. A Participant may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Board and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the grantee's beneficiary.

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

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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated February 10, 1998. It should be noted that we have not audited any financial statements of the company subsequent to December 31, 1997 or performed any audit procedures subsequent to the date of our report.

/s/ Arthur Andersen LLP

New York, New York
March 30, 1997