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

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

Commission File Number: 0-11576

HARRIS & HARRIS GROUP, INC.

(Exact name of registrant as specified in its charter)

New York	13-3119827
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Rockefeller Plaza, Rockefeller Center, New York, New York	10020
(Address of Principal Executive Offices)	(Zip Code)

(212) 332-3600

(Registrant's telephone number, including area code)

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

Yes [X]   No [   ]

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

Yes [   ]   No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 7, 2003
Common Stock, $0.01 par value per share	11,498,845 shares

Harris & Harris Group, Inc.
Form 10-Q, March 31, 2003

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

The information furnished in the accompanying consolidated financial statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim period presented.

Harris & Harris Group, Inc. (the "Company") is an internally managed, closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Certain information and disclosures normally included in the consolidated financial statements in accordance with Generally Accepted Accounting Principles have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. It is suggested that the accompanying consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2002 contained in the Company's 2002 Annual Report.

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification of the Company as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code (the "Code"). At that time, the Company was taxable under Sub-Chapter C of the Code (a "C Corporation"). 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, gains from the sale of securities and similar sources; (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 four percent excise tax to the extent it fails to distribute at least 98 percent of its annual taxable income and would be subject to income tax to the extent it fails to distribute 100 percent of its investment company taxable income.

Because of the specialized nature of its investment portfolio, the Company could satisfy the diversification requirements under Sub-Chapter M of the Code only if it received a certification from the Securities and Exchange Commission ("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."

On April 2, 2003, the Company received SEC certification for 2002, permitting it to qualify for RIC treatment for 2002 (as it had for 1999-2001). Although the SEC certification for 2002 was issued, there can be no assurance that the Company will qualify for or receive such certification for subsequent years (to the extent it needs additional certification as a result of changes in its portfolio) or that it will actually qualify for Sub-Chapter M treatment in subsequent years. In addition, under certain circumstances, even if the Company qualified for Sub-Chapter M treatment in a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	March 31, 2003 (Unaudited)	December 31, 2002 (Audited)
Investments, at value (Cost: $38,148,077 at 3/31/03, $30,206,935 at 12/31/02)..............	$34,799,838	$27,486,822
Cash and cash equivalents..	115,948	5,967,356
Restricted funds (Note 5)..	762,532	756,944
Funds in escrow............	0	750,000
Receivable from portfolio company..................	0	786,492
Interest receivable........	22,086	189
Income tax receivable......	72,546	0
Prepaid expenses...........	75,867	96,631
Other assets..............	109,607	107,535
	-----------	-----------
Total assets..............	$35,958,424	$35,951,969
	===========	===========

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities.......	$ 1,519,347	$ 1,451,568
Payable to broker for unsettled trade...........	0	5,696,725
Bank loan payable (Note 8).	7,724,207	0
Accrued profit sharing (Note 3).................	1,523	15,233
Deferred rent.............	3,084	5,397
Current income tax liability................	0	857,656
Deferred income tax liability (Note 6)........	669,344	669,344

Total liabilities..........	9,917,505	8,695,923
Commitments and contingencies (Note 7)		
Net assets.................	$26,040,919	$27,256,046
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued...	$ 0	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized; 13,327,585 issued at 3/31/03 and 12/31/02..................	133,276	133,276
Additional paid in capital (Note 4)..................	32,845,872	32,845,872
Additional paid in capital - common stock warrants...	109,641	109,641
Accumulated net realized gain......................	550,819	1,137,820
Accumulated unrealized appreciation of investments, net of deferred tax liability of $844,918 at 3/31/03 and 12/31/02..............	(4,193,158)	(3,565,032)
Treasury stock, at cost (1,828,740 shares at 3/31/03 and 12/31/02).....	(3,405,531)	(3,405,531)
Net assets.................	$26,040,919	$27,256,046
Shares outstanding.........	11,498,845	11,498,845
Net asset value per outstanding share.........	$ 2.26	$ 2.37

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Investment income:		
Interest from unaffiliated issuers....	$ 46,246	$ 54,136
Other income.............	18,430	5,326
Total investment income.	64,676	59,462
Expenses:		
Profit-sharing accrual (Note 3)...............	0	127,959
Salaries and benefits....	362,196	255,376
Administration and operations.............	95,112	87,902
Professional fees........	67,158	43,095
Rent.....................	47,877	42,724
Directors' fees and expenses...............	56,365	41,076
Depreciation.............	9,980	5,948
Custodian fees...........	2,187	3,839
Interest expense (Note 4)...............	8,261	7,776

Total expenses..........	649,136	615,695
Operating loss before income taxes...........	(584,460)	(556,233)
Income tax provision (Note 6)...............	0	0
Net operating loss........	(584,460)	(556,233)
Net realized gain on investments:		
Realized gain on investments............	432	110,679
Total realized gain...	432	110,679
Income tax provision (Note 6)...............	(2,973)	(34,223)
Net realized (loss) gain on investments.....	(2,541)	76,456
Net realized loss.........	(587,001)	(479,777)
Net decrease in unrealized appreciation on investments:		
Decrease as a result of investment sales........	0	0
Increase as a result of investment sales........	0	0
Increase on investments held...................	227,838	45,006
Decrease on investments held...................	(855,964)	(602,163)
Change in unrealized appreciation on investments..........	(628,126)	(557,157)
Income tax provision (Note 6)...............	0	0
Net decrease in unrealized appreciation on investments.........	(628,126)	(557,157)
Net decrease in net assets resulting from operations:		
Total....................	$(1,215,127)	$ (1,036,934)
Per outstanding share....	$ (0.11)	$ (0.12)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Cash flows from operating activities:		
Net decrease in net assets resulting from operations..............	$(1,215,127)	$(1,036,934)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in		

operating activities:		
Net realized and unrealized loss on investments	627,694	442,349
Depreciation	9,980	5,948
Changes in assets and liabilities:		
Restricted funds	(5,588)	(72,947)
Receivable from investment company	786,492	0
Funds in escrow	750,000	0
Interest receivable	(21,897)	82
Note receivable	0	10,487
Current income tax receivable	(72,546)	0
Prepaid expenses	20,764	(56,284)
Other assets	(2,072)	17,627
Accounts payable and accrued liabilities	67,779	(9,597)
Payable to broker for unsettled trade	(5,696,725)	0
Accrued profit sharing	(13,710)	127,959
Current income tax liability	(857,656)	(256,875)
Deferred rent	(2,313)	(2,313)
Net cash used in operating activities	(5,624,925)	(830,498)
Cash flows from investing activities:		
Net (purchase) sale of short-term investments and marketable securities	(7,211,448)	6,753,035
Proceeds from investments	12,088	180,211
Investment in private placements and loans	(750,000)	(2,425,000)
Purchase of fixed assets	(1,330)	(1,821)
Net cash (used in) provided by investing activities	(7,950,690)	4,506,425
Cash flows from financing activities:		
Payment of bank loan payable	0	(3,499,037)
Proceeds from bank loan payable	7,724,207	0
Net cash provided by (used in) financing activities	7,724,207	(3,499,037)
Net increase (decrease) in cash and cash equivalents:		
Cash and cash equivalents at beginning of the period	5,967,356	135,135
Cash and cash equivalents at end of the period	115,948	312,025
Net (decrease) increase in cash and cash equivalents	$(5,851,408)	$ 176,890
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 565,000	$ 290,748
Interest paid	$ 0	$ 11,108

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Changes in net assets from operations:		
Net operating loss.......	$ (584,460)	$ (556,233)
Net realized (loss) gain on investments.....	(2,541)	76,456
Net increase in unrealized appreciation on investments as a result of sales.........	0	0
Net decrease in unrealized appreciation on investments held.....	(628,126)	(557,157)
	-----------	-----------
Net decrease in net assets resulting from operations.............	(1,215,127)	(1,036,934)
Net decrease in net assets...................	(1,215,127)	(1,036,934)
	-----------	-----------
Net assets:		
Beginning of the period..	27,256,046	24,334,770
	-----------	-----------
End of the period........	$26,040,919	$23,297,836
	===========	===========

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2003
(Unaudited)

	Method of Valuation (3)	Shares/ Principal	Value
Investments in Unaffiliated Companies (8)(9)(10) -- 9.2% of total investments			
Private Placement Portfolio (Illiquid) -- 9.2% of total investments			
AlphaSimplex Group, LLC (2)(12) -- Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT			
Limited Liability Company interest....	(D)	--	$ 4,301
Continuum Photonics, Inc.			

(1)(2)(6) -- Develops optical networking components by merging cutting-edge materials, MEMS and electronics technologies -- 3.73% of fully diluted equity		
Series B Convertible Preferred Stock...(D)	2,000,000	123,394
Exponential Business Development Company (1)(2)(5)(12) -- Venture capital partnership focused on early stage companies		
Limited partnership interest...........(A)	--	25,000
Kriton Medical, Inc. (1)(2)(5)(6) -- Develops ventricular assist devices -- 1.73% of fully diluted equity		
Series B Convertible Preferred Stock...(D)	476,191	0
NanoGram Devices Corporation (1)(2)(4)(6) -- Develops power components for biomedical applications by utilizing a patented nanomaterial synthesis process -- 4.63% of fully diluted equity		
Series A-2 Convertible Preferred Stock.(B)	750,000	750,000
NanoOpto Corporation (1)(2)(6) -- Develops high performance, integrated optical communications sub-components on a chip by utilizing patented nano-manufacturing technology -- 1.45% of fully diluted equity		
Series A-1 Convertible Preferred Stock.(D)	267,857	237,866
Nantero, Inc. (1)(2)(5)(6) -- Develops a high density nonvolatile random access memory chip using nanotechnology -- 4.15% of fully diluted equity		
Series A Convertible Preferred Stock...(A)	345,070	489,999
NeoPhotonics Corporation (1)(2)(6) -- Develops and manufactures planar optical devices and components using nanomaterials deposition technology -- 1.76% of fully diluted equity		
Series D Convertible Preferred Stock...(D)	1,498,802	320,071
Optiva, Inc. (1)(2)(5)(6) -- Develops and commercializes nanomaterials for advanced applications -- 1.99% of fully diluted equity		
Series C Convertible Preferred Stock...(B)	1,249,999	1,250,000

Total Private Placement Portfolio (cost: $6,143,161).......		$3,200,631

Total Investments in Unaffiliated Companies (cost: $6,143,161)..		$3,200,631

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2003
(Unaudited)

	Method of Valuation (3)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (8)(9)(11) - -- 25.7% of total investments			
Private Placement Portfolio (Illiquid) -- 25.7% of total investments			
Agile Materials & Technologies, Inc. (1)(2)(5)(6) -- Develops and sells variable integrated passive electronic equipment components -- 8.15% of fully diluted equity			
Series A Convertible Preferred Stock...	(A)	3,732,736	$1,000,000
Experion Systems, Inc. (1)(2)(5)(7) -- Develops and sells software to credit unions -- 12.86% of fully diluted equity			
Series A Convertible Preferred Stock...	(B)	294,118	
Series B Convertible Preferred Stock...	(B)	35,294	
Series C Convertible Preferred Stock...	(B)	222,184	$1,037,000
Nanopharma Corp. (1)(2)(6) -- Develops advanced nanoscopic drug delivery vehicles and systems -- 14.69% of fully diluted equity			
Series A Convertible Preferred Stock...	(A)	684,516	350,000
Nanotechnologies, Inc. (1)(2)(5)(6) -- Develops high-performance nanoscale materials for industry -- 6.48% of fully diluted equity			
Series B Convertible Preferred Stock...	(A)	1,538,837	750,000
NeuroMetrix, Inc. (1)(2)(5) -- Develops and sells medical devices for monitoring neuromuscular disorders -- 12.10% of fully diluted equity			
Series A Convertible Preferred Stock...	(B)	875,000	
Series B Convertible Preferred Stock...	(B)	625,000	
Series C-2 Convertible Preferred Stock.	(B)	1,148,100	
Series E Convertible Preferred Stock...	(B)	499,996	
Series E-1 Convertible Preferred Stock.	(B)	235,521	5,075,426
Questech Corporation (1)(2)(5) -- Manufactures and markets proprietary metal decorative tiles -- 6.68% of fully diluted equity			
Common Stock...........................	(B)	646,954	
Warrants at $5.00 expiring 11/15/04....	(B)	1,966	
Warrants at $1.50 expiring 11/16/05....	(B)	1,250	
Warrants at $1.50 expiring 12/14/06....	(B)	8,500	
Warrants at $1.50 expiring 11/21/07....	(B)	3,750	724,588

Total Private Placement Portfolio (cost: $9,359,300)........			$8,937,014

Total Investments in Non-Controlled Affiliated Companies (cost: $9,359,300)...			$8,937,014

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2003
(Unaudited)

	Method of Valuation (3)	Shares/ Principal	Value
U.S. Government and Agency Obligations -- 65.1% of total investments			
U.S. Treasury Bills -- due date 04/10/03....................	(K)	$3,450,000	$ 3,448,896
U.S. Treasury Bills -- due date 04/17/03....................	(K)	5,100,000	5,097,195
U.S. Treasury Bills -- due date 04/24/03....................	(K)	2,700,000	2,697,921
U.S. Treasury Bills -- due date 05/22/03....................	(K)	3,700,000	3,694,080
Federal Home Loan Bank Note -- due date 02/15/05....................	(H)	7,700,000	7,724,101
Total Investments in U.S. Government (cost: $22,645,616)...			$22,662,193
Total Investments -- 100% (cost: $38,148,077).............			$34,799,838

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2003
(Unaudited)

Notes to Consolidated Schedule of Investments

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

(2) Legal restrictions on sale of investment.

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

(4) Initial investment was made during 2003.

(5) No changes in valuation occurred in these investments during the three months ended March 31, 2003.

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

(7) Previously named MyPersonalAdvocate.com, Inc.

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

(9) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The

calculated percentage represents the amount of the issuer's equity securities the Company owns or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.

(10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $6,143,161. The gross unrealized appreciation based on the tax cost for these securities is $1,140. The gross unrealized depreciation based on the tax cost for these securities is $2,943,670.

(11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $9,359,300. The gross unrealized appreciation based on the tax cost for these securities is $2,414,044. The gross unrealized depreciation based on the tax cost for these securities is $2,836,330.

(12) Non-registered investment company.

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

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

1) EQUITY-RELATED SECURITIES

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

3) LONG-TERM FIXED-INCOME SECURITIES

4) SHORT-TERM FIXED-INCOME INVESTMENTS

5) ALL OTHER INVESTMENTS

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

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

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

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

changes that may take place in the future.

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

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

EQUITY-RELATED SECURITIES

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

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

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

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

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

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

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

restricted securities under applicable securities laws.

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

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

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

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

G. Analytical Method: The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's 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 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 Valuation Committee.

The reported values of securities for which market

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. THE COMPANY

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

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

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

The Company filed for the 1999 tax year to elect treatment as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for 2000-2002. There can be no assurance that the Company will qualify as a RIC for 2003 and subsequent years or that if it does qualify, it will continue to qualify for subsequent years. In addition, even if the Company were to qualify as a RIC for a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, the Company must, among other factors, distribute at least 90 percent of its investment company taxable income and may either distribute or retain its realized net capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting

principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other assets is as determined in good faith by, or under the direction of, the Board of Directors. (See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments.")

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

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

The March 31, 2003 consolidated financial statements include a provision for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by the Company through December 31, 1998.

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

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of March 31, 2003, and December 31, 2002, and the reported amounts of revenues and expenses for the three months ended March 31, 2003, and March 31, 2002. The most significant estimates relate to the fair valuations of investments for the three months ended March 31, 2003, and March 31, 2002. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

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

As of January 1, 1998, the Company implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "1998 Plan") that provided for profit sharing equal to 20 percent of the net

realized income of the Company as reflected on the Consolidated Statements of Operations for such year, less the nonqualifying gain, if any. The 1998 Plan was terminated by the Company as of December 31, 1999, subject to the payment of any amounts owed on the 1999 realized gains under the 1998 Plan.

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

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

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

As soon as practicable following the year-end audit, the Compensation Committee (the "Committee") will determine whether, and if so how much, Qualifying Income exists for a plan year, and 90 percent of the Qualifying Income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10 percent will be paid out after the Company has filed its federal tax return for that year in which Qualifying Income exists.

As of January 1, 2003, the Company implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "2002 Plan"). The shareholders of the Company approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Internal Revenue Code of 1986 ("Code"). The Code generally provides that a public company such as the Company may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to any such officer/employee exceeds $1 million in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by the Company's shareholders.

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

Under the 2002 Plan, awards previously granted to the Plan's four current Participants (Messrs. Harris and Melsheimer and Mss. Shavin and Matthews, herein referred to as the "grandfathered participants") will be reduced by 10% with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25% with respect to "Tiny Technology Investments" (as defined in the 2002 Plan) and will become permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which such awards are reduced will be allocable and reallocable each year by the Compensation Committee ("Committee") among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by the Company whether or not the grandfathered participant is still employed by the Company or is still alive (in the event of death, the

grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by the Company at the end of a plan year in order to participate in profit sharing on such investments with respect to such year.

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which the Company remains a "business development company" within the meaning of 1940 Act be greater than 20 percent of the Company's "net income after taxes" within the meaning of Section

57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed such amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be modified. Nothing in the 2002 Plan will preclude the Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee currently are as follows: Charles E. Harris, 10.790 percent; Mel P. Melsheimer, 4.233 percent; Douglas W. Jamison, 3.0 percent; Helene B. Shavin, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent. In one case, for a former employee who left the Company for reason other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to such participant.

The grandfathered participations are set forth below:

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

Accordingly, an additional 2.00% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5.00% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20.00% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently, Douglas W. Jamison is allocated 0.80% of the Non-Tiny Technology Grandfathered Participations and 2.00% of the Tiny Technology Grandfathered Participations.

The Company calculates the profit-sharing accrual at each quarter end based on the realized and unrealized gains at that date, net of operating expenses for the year. Any adjustments to the profit-sharing accrual are then reflected in the Consolidated Statements of Operations for the quarter. The profit-sharing accrual is not paid out until the gains are realized. During the first quarter of 2003, the Company, under the Harris & Harris Group, Inc. Employee Profit-Sharing Plan, paid out 90 percent of the 2002 profit sharing in the amount of $13,710. The remaining

10 percent of the 2002 profit sharing, $1,523, will be paid out upon the completion and filing of the Company's 2002 federal tax return.

NOTE 4. CAPITAL TRANSACTIONS

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

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

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

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

NOTE 5. EMPLOYEE BENEFITS

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

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

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $208,315 for 2000, with automatic yearly adjustments to reflect inflation. In addition,

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

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

The Employment Agreement provides for the Company to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, the Company will cause an amount equal to one-twelfth of Mr. Harris's current annual salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on the books of the Company for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris's benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. The Company will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by the Company under the SERP. The restricted funds for the SERP Plan total $762,532 as of March 31, 2003. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of the Company.

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

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

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. As of January

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

On June 30, 1994, the Company adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. As of March 31, 2003, the Company had a reserve of $446,302 for the plan.

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

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

NOTE 6. INCOME TAXES

The Company elected Sub-Chapter M status for the year ended December 31, 1999. On February 23, 1999, the Company declared a cash dividend of $0.35 per share (for a total of $3,647,017),

thereby distributing part of the long-term capital gain generated in 1999 by the sale of NBX Corporation to 3Com Corporation. Approximately $143,261 of the long-term capital gain for 1999 was not distributed during 1999. Accordingly, on September 20, 2000, the Company declared a $0.02 dividend (for a total of $184,817). For the year ended December 31, 1999, the Company incurred approximately $20,000 in excise taxes.

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

Continued qualification as a RIC requires the Company to satisfy certain investment asset diversification requirements in future years. The Company's ability to satisfy those requirements may not be controllable by the Company. There can

be no assurance that the Company will qualify as a RIC in subsequent years.

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

During the three months ended March 31, 2003, the Company accrued a net tax provision of $2,973. The Company pays federal, state and local taxes on behalf of its wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is taxed as a C Corporation.

For the three months ended March 31, 2003, and 2002, the Company's income tax provision was allocated as follows:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Investment operations	$ 0	$ 0
Net realized gain on investments	2,973	34,223
Net decrease in unrealized appreciation on investments	0	0

Total income tax provision	$ 2,973	$ 34,223

The above tax provision consists of the following:

Current	$ 2,973	$ 34,223
Deferred -- Federal	0	0
Total income tax provision	$ 2,973	$ 34,223

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

	March 31, 2003	December 31, 2002
Tax on unrealized appreciation on investments	$ 844,918	$ 844,918
Net operating loss and capital carryforward	(175,574)	(175,574)
Net deferred income tax liability	$ 669,344	$ 669,344

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a 10-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. During 1999, the Company sublet this additional space to an unaffiliated party. Rent expense under this lease for the year ended December 31, 2002 was $178,561. Minimum lease payments in 2003 are $101,946.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

On November 19, 2001, the Company established an asset account line of credit of up to $12,700,000. The asset account line of credit is secured by the Company's government and government agency securities. Under the asset account line of credit, the Company may borrow up to 95 percent of the current value of its government and government agency securities. The Company's outstanding balance under the asset line of credit at March 31, 2003 and March 31, 2002 was $7,724,207 and $8,996,740 respectively. The asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points. At March 31, 2003, the asset account line of credit accrued interest at a rate of 3.5%.

NOTE 9. SUBSEQUENT EVENTS

On April 1, 2003, the Company sold its investment in $7,700,000 of Federal Home Loan Bank Notes. The proceeds of $7,748,561 were used to repay the entire outstanding balance of $7,724,207 under the asset line of credit.

On April 7, 2003, the Company invested $1,500,000 in Series C convertible preferred stock of privately held Nanosys, Inc. Nanosys, Inc. is focused on the development of nanotechnology-enabled systems incorporating novel and patent-protected zero and one-dimensional nanometer-scale materials such as nanowires, nanotubes and nanodots (quantum dots).

On April 8, 2003, Kriton Medical, Inc. filed for Chapter 11 bankruptcy. The Company wrote off its investment in Kriton in 2002.

The Company has entered into a seven-year sublease for office space in New York City to replace its existing lease which

is expiring July 31, 2003. The Company plans to occupy this new space beginning in August 2003. The rent for the first 12 months will be $126,086.

NOTE 10. INTERIM FINANCIAL STATEMENTS

The interim financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company's financial position, results of operations and cash flows for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company accounts for its operations utilizing accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets resulting from operations," which is the sum of three elements. The first element is "Net operating income (loss)," which is the difference between the Company's income from interest, dividends, and fees and its operating expenses. 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 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 (loss) gain increases (decreases).

Financial Condition

The Company's total assets and net assets were, respectively, $35,958,424 and $26,040,919 at March 31, 2003, compared with $35,951,969 and $27,256,046 at December 31, 2002.

Among the significant developments in the first quarter of 2003 were: (1) the payment of $933,972 in federal, state and local taxes; (2) investment in NanoGram Devices Corporation of $750,000; (3) decline in the value of the Company's investment in Continuum Photonics, Inc. of $395,595; (4) decline in the value of the Company's investment in Nanopharma Corp. of $350,000; (5) decline in the value of the Company's investment in NeoPhotonics Corporation of $110,369; (6) increase in the value of the Company's investment in NanoOpto Corporation of $209,466; (7) increase in bank loan payable of $7,724,207; and (8) receipt of $786,492 as final payment from the liquidation of the Company's partnership interest in PHZ Capital Partners L.P.

Net asset value per share ("NAV") was $2.26 at March 31,

2003, versus $2.37 at December 31, 2002.

The Company's shares outstanding remained unchanged during the three months ended March 31, 2003.

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 and have little or no history of operations. At March 31, 2003, $12,137,645 or 33.8 percent of the Company's total assets (46.6 percent of the Company's net assets) consisted of non-publicly traded securities at fair value, net of unrealized depreciation of $3,364,816.

The increase in the value of the non-publicly traded securities from $12,036,077 at December 31, 2002 to $12,137,645 at March 31, 2003 resulted primarily from the Company's new investment in NanoGram Devices Corporation and an increase in the valuation of the Company's holdings in NanoOpto Corporation. The increase was partially offset by decreases in the valuation of the Company's holdings in Continuum Photonics, Inc., Nanopharma Corp. and NeoPhotonics Corporation.

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

	March 31, 2003	December 31, 2002
Investments, at cost	$ 38,148,077	$ 30,206,935
Unrealized depreciation	(3,348,239)	(2,720,113)
Investments, at fair value	$ 34,799,838	$ 27,486,822

The accumulated unrealized depreciation on investments net of deferred taxes is $4,017,583 at March 31, 2003, versus $3,389,458 at December 31, 2002.

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

The Company made one new investment of $750,000 in its private placement portfolio during the three months ended March 31, 2003, in NanoGram Devices Corporation.

Results of Operations

Investment Income and Expenses:

The Company had net operating loss of $584,460 and $556,233 for the three months ended March 31, 2003, and March 31, 2002, respectively.

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

The Company had interest income from fixed-income securities of $46,246 and $54,136 for the three months ended March 31, 2003 and March 31, 2002, respectively. The decrease of $7,890 or 14.6 percent reflects the decline in interest rates during 2002 and the beginning of 2003.

The Company had other income of $18,430 and $5,326 for the three months ended March 31, 2003, and March 31, 2002, respectively. Other income primarily represents rental income from subletting office space to an unaffiliated party. The rental income was offset in the three months ended March 31, 2002, by a reserve against a note receivable.

Operating expenses were $649,136 and $615,695 for the three months ended March 31, 2003, and March 31, 2002, respectively. The operating expenses for the first quarter of 2003 include no expense for employee profit-sharing versus $127,459 in such expense in the first quarter of 2002. In the first three months of 2003 versus the first three months of 2002, salaries and benefits increased by $106,820 or 41.8 percent, primarily as a result of the addition of an employee and pension expense. Professional fees increased by $24,063 or 55.8 percent, primarily as a result of an increase in independent accounting and legal expenses associated with the implementation of the Sarbanes Oxley Act and legal expenses associated with the preparation of the Company's proxy statement. Directors' fees and expenses increased by $15,289 or 37.2 percent as a result of two additional directors in the first three months of 2003 versus the first three months of 2002 and meetings of the Ad Hoc Long-Term Planning Committee and the Board of Directors regarding long-term planning.

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, the Company attempts to maintain adequate working capital to provide for fiscal periods when there are no such sales.

Realized Gains and Losses on Portfolio Securities:

During the three months ended March 31, 2003, and 2002, the Company recorded net realized income from investments of $432 and $110,679, respectively. During the three months ended March 31, 2002, the Company's realized income consisted primarily of cash received from the Nanophase Technologies Litigation Settlement Fund and income from the Company's partnership interest in PHZ Capital Partners L.P.

Unrealized Appreciation and Depreciation of Portfolio Securities:

The Company's Valuation Committee values the portfolio securities on a quarterly basis pursuant to the Company's Asset Valuation guidelines established by the Board of Directors in accordance with the 1940 Act. (See "Footnote to Consolidated Schedule of Investments" contained in "Item 1. Consolidated Financial Statements.")

Net unrealized depreciation on investments increased by $628,126 or 23.1 percent during the three months ended March 31, 2003, from $2,720,113 to $3,348,239, primarily as a result of the decline in the value of the Company's holdings in Continuum Photonics, Inc., Nanopharma Corp. and NeoPhotonics Corporation of $395,595, $350,000 and $110,369, respectively, partially offset by an increase in the value of the Company's holdings in NanoOpto Corporation of $209,466.

Net unrealized appreciation on investments decreased by $557,157 or 45.8 percent during the three months ended March 31, 2002, from $1,216,421 to $659,264, primarily as a result of the decline in the value of the Company's holdings of Experion Systems, Inc. of $600,000.

Liquidity and Capital Resources

The Company's net primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. The Company's secondary sources of liquidity are restricted securities of companies that are publicly traded. The Company's tertiary source of liquidity had been its holding of PHZ Capital Partners L.P., which was liquidated effective December 31, 2002. The Company received the final distribution from PHZ Capital Partners L.P. in the first quarter of 2003 of

$786,492. At March 31, 2003, and December 31, 2002, respectively, the Company's total net primary liquidity was $15,131,960 and $16,508,057. On both of the corresponding dates, the Company's secondary liquidity was $0 as the Company had no restricted securities of companies that are publicly traded.

The decrease in the Company's primary source of liquidity from December 31, 2002, to March 31, 2003, is primarily owing to the payment of federal, state and local taxes of $933,972 and the use of funds for operating expenses.

From December 31, 2002, to March 31, 2003, the Company's liability for accrued employee profit sharing decreased by $13,710 or 90 percent to $1,523 as a result of the payment of $13,710 of the 2002 profit sharing. The remaining 2002 profit sharing accrual of $1,523 will be paid upon the completion and filing of the Company's 2002 federal tax return.

The Company's total net income tax liability decreased by $930,202 from $1,527,000 to $596,798, primarily as a result of federal, state and local payments for income earned in 2002.

Critical Accounting Policies

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

Recent Developments -- Portfolio Companies

On April 7, 2003, the Company invested $1,500,000 in Series C convertible preferred stock of privately held Nanosys, Inc. Nanosys, Inc. is focused on the development of nanotechnology-enabled systems incorporating novel and patent-protected zero and one-dimensional nanometer-scale materials such as nanowires,

nanotubes and nanodots (quantum dots).

On April 8, 2003, Kriton Medical, Inc. filed for Chapter 11 bankruptcy. The Company wrote off its investment in Kriton in 2002.

Recent Developments -- Sub-Chapter M Status

On April 2, 2003, the Company received SEC certification and qualified for RIC treatment for 2002. Although the SEC certification for 1999-2002 was issued, there can be no assurance that the Company will receive such certification for subsequent years (to the extent it needs additional certification as a result of changes in its portfolio) or that it will actually qualify as a RIC for subsequent years. In addition, under certain circumstances, even if the Company qualified for Sub-Chapter M treatment in a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

Risk Factors

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

- the ongoing global economic downturn, coupled with the U.S.'s occupation of Iraq;

- risks associated with the possible disruption of the Company's operations because of terrorism;

- SARS; and

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

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

The value of the Company's common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of the amount invested in the Company's shares of common stock. The securities markets frequently experience extreme price and volume fluctuations which affect market prices for securities of companies generally and technology and very small capitalization companies in particular. Because of the Company's focus on the technology and very small capitalization sectors and because it is a small capitalization company, its stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the life sciences, nanotechnology, tiny technology, material sciences, internet and information technology and other high technology industries, will also affect the Company's stock price. During the first quarter of 2002, the Company decided to make its initial equity investments exclusively in tiny-technology companies, including nanotechnology, microsystems and microelectromechanical systems (MEMS). Tiny technology investments are new and especially risky, involving science and technology risks as well as commercialization risks.

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

The Company's investments, in accordance with its investment objective and principal strategies, result in a far above average amount of risk and volatility and may well result in loss of principal. The Company's investments in portfolio companies are

highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for investors for whom such risk is inappropriate.

The Company operates in a highly competitive environment.

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

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

The Company operates in a regulated environment.

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

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

The Company is dependent for the selection, structuring, closing and monitoring of its investments on the diligence and skill of its senior management and other management members. The Company utilizes outside consultants, including two of its directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, and lawyers to assist the Company in conducting due diligence when evaluating potential investments. The future success of the Company depends to a significant extent on the continued service and coordination of its senior management team, particularly Charles E. Harris, the Company's Chairman and Chief Executive Officer. The departure of any of the executive officers or key

employees could materially adversely affect the Company's ability to implement its business strategy. The Company does not maintain for its benefit any key man life insurance on any of its officers or employees.

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

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

commercialization risks. The Company has in the past relied, and continues to rely, upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Such sales are unpredictable and may not occur.

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

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

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

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

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

There is typically no public market for equity securities of the small privately held companies in which the Company invests. As a result, the valuation of most of the equity securities in the Company's portfolio is subject to the good

faith determination of the Company's Valuation Committee within the guidelines established by the Board of Directors. (See "Asset Valuation Policy Guidelines" in "Footnote to Consolidated Schedule of Investments" contained in Item 1. "Consolidated Financial Statements.") In the absence of a readily ascertainable market value, the value of the Company's portfolio of equity securities may differ significantly from the values that would be placed on the portfolio if a ready market for the equity securities existed. The Company adjusts quarterly the valuation of its portfolio to reflect the Valuation Committee's determination of the current fair value of each investment in its portfolio. Any changes in fair value are recorded in the Company's consolidated statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments." (See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

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

The Company's quarterly operating results could fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company and its portfolio companies encounter competition in their markets and general economic and market conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters. (See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

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

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

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

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

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

operating expenses.

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

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

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

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

Leverage entails two primary risks. The first risk is that the use of leverage magnifies the impact on the common shareholders of changes in net asset value. For example, a fund that uses 33 percent leverage (that is, $50 of leverage per $100 of common equity) will show a 1.5 percent increase or decline in net asset value for each 1 percent increase or decline in the value of its total assets. The second risk is that the cost of leverage will exceed the return on the securities acquired with the proceeds of leverage, thereby diminishing rather than enhancing the return to common shareholders. If the Company were to utilize leverage, these two risks would generally make its total return to common shareholders more volatile. In addition, the Company might be required to sell investments in order to meet dividend or interest payments on the debt or preferred stock when it might be disadvantageous to do so.

As provided in the 1940 Act and subject to certain exceptions, the Company can issue debt or preferred stock so long as its total assets immediately after such issuance, less certain ordinary course liabilities, exceed 200 percent of the amount of the debt outstanding and exceed 200 percent of the sum of the amount of the preferred stock and debt outstanding. Such debt or preferred stock may be convertible in accordance with SEC guidelines which may permit the Company to obtain leverage at attractive rates. A leveraged capital structure creates certain special risks and potential benefits not associated with unleveraged funds having similar investment objectives and policies. Any investment income or gains from the capital represented by preferred shares or debt which is in excess of the dividends payable thereon will cause the total return of the common shares to be higher than would otherwise be the case. Conversely, if the investment performance of the capital

represented by preferred shares or debt fails to cover the dividends payable thereon, the total return of the common shares would be less or, in the case of negative returns, would result in higher negative returns to a greater extent than would otherwise be the case. The requirement under the 1940 Act to pay in full dividends on preferred shares or interest on debt before any dividends may be paid on the common shares means that dividends on the common shares from earnings may be reduced or eliminated. Although an inability to pay dividends on the common shares could conceivably result in the Company ceasing to qualify as a RIC under the Code, which would be materially adverse to the holders of the common shares, such inability could be avoided through the use of mandatory redemption requirements designed to ensure that the Company maintains the necessary asset coverage.

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

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

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

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

When companies in which the Company has invested as private entities complete initial public offerings, they are by definition unseasoned issues. Typically, they have relatively small capitalizations. Thus, they can be expected to be highly volatile and of uncertain liquidity. If they are perceived as suffering from adverse news or developments and/or the capital markets are in a negative phase, not only their market prices, but also their liquidity can be expected to be affected negatively. Historically, the Company has also invested in unseasoned publicly traded companies with similar characteristics and thus with similar exposure to potential negative volatility and illiquidity. In addition, the imposition of decimalization and other reforms on the stock exchanges, particularly Nasdaq, may have reduced liquidity and increased volatility and riskiness of small, thinly traded public companies because it may have lessened the incentive for dealers to market and make markets in smaller issues. In general, reforms of Nasdaq intended to make it a more visible and efficient market may have had the effect of making it unprofitable for dealers to make markets in smaller issues, thereby decreasing the liquidity of such issues.

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 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's business activities contain elements of risk. The Company considers a principal type of market risk to be valuation risk. Investments are stated at " value" as defined in the 1940 Act and in the applicable regulations of the SEC. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other assets is as determined in good faith by, or under the direction of, the Board of Directors. (See the "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments contained in "Item 1. Consolidated Financial Statements.")

Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. The Company has exposure to public-market price fluctuations to the extent of its publicly traded portfolio, which portfolio may be composed primarily or entirely of highly risky, volatile securities.

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. Even when the Company's private equity investments complete initial public offerings (IPOs), the Company is normally subject to lock-up agreements for a period of time.

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

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Not Applicable

Item 2. Changes in Securities and Use of Proceeds
Not Applicable

Item 3. Defaults Upon Senior Securities
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1* Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan.

10.2* Amendment No. 1 to Deferred Compensation Agreement.

11.0* Computation of per share earnings. See Consolidated Statements of Operations.

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

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

(b) Reports on Form 8-K filed during the quarter ended March 31, 2003

None

____
*filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of

1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Harris & Harris Group, Inc.

/s/ Helene B. Shavin

By: Helene B. Shavin, Vice President and Controller

Date: May 14, 2003

Certifications

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

1. I have reviewed this quarterly report on Form 10-Q of Harris & Harris Group, Inc.

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

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

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

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

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

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

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

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

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

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

By: /s/ Charles E. Harris

Date: May 14, 2003 Charles E. Harris,
Chief Executive Officer

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

1. I have reviewed this quarterly report on Form 10-Q of Harris & Harris Group, Inc.

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

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

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

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

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

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

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

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

internal controls; and

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

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

By: /s/ Mel P. Melsheimer

Date: May 14, 2003 Mel P. Melsheimer,
Chief Financial Officer

AMENDMENT NO. 1
TO
DEFERRED COMPENSATION AGREEMENT

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

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

NOW, THEREFORE, the parties hereto agree as follows:
1. Section 7 of the Agreement is hereby amended to read in its entirety as follows:

"Section 7. Effect on Other Benefits.
"Any deferred compensation payable under this Agreement shall not be deemed salary or other compensation to the Executive for the purpose of computing benefits to which he may be entitled under any pension plan or other arrangement of the Company for the benefit of its employees, except under the Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan."

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

HARRIS & HARRIS GROUP, INC.

By:/s/ Mel P. Melsheimer

Mel P. Melsheimer, President

By:/s/ Charles E. Harris

Charles E. Harris

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

In connection with the Quarterly Report on Form 10-Q of Harris & Harris Group, Inc. (the "Company") for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Harris, as Chief Executive Officer of Harris & Harris Group, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

/s/ Charles E. Harris
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Name: Charles E. Harris
Title: Chief Executive Officer
Date: May 14, 2003

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report on Form 10-Q of Harris & Harris Group, Inc. (the "Company") for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mel P. Melsheimer, as Chief Financial Officer of Harris & Harris Group, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

/s/ Mel P. Melsheimer
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Name: Mel P. Melsheimer
Title: Chief Financial Officer
Date: May 14, 2003

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

HARRIS & HARRIS GROUP, INC
EXECUTIVE MANDATORY RETIREMENT BENEFIT PLAN

SECTION I

PURPOSE

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

SECTION II

DEFINITIONS

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

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

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

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

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

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

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

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

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

(i) Mandatory Retirement Benefit Amount shall mean the lump sum equivalent of a nonforfeitable retirement benefit

(within the meaning of, and calculated in accordance with, the Age Discrimination Acts) which will satisfy the requirements for exempting the Participant from any prohibitions against compulsory retirement under the Age Discrimination Acts immediately prior to the Participant's Effective Mandatory Retirement Date. As of the adoption of this Plan, the Mandatory Retirement Benefit Amount is the lump sum equivalent of an immediate nonforfeitable straight life annuity (with no ancillary benefits) of $44,000.

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

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

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

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

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

SECTION III

BENEFITS

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

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

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

SECTION IV

ADMINISTRATION

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

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

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

(a) To determine any question arising in con-

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

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

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

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

SECTION V

NONALIENATION OF BENEFITS

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

SECTION VI

AMENDMENT AND TERMINATION

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

SECTION VII

MISCELLANEOUS

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

7.2 No Effect on Other Compensation and Benefits. Nothing contained herein shall exclude or in any manner modify or otherwise affect any existing or future rights of any Participant

to participate in and receive the benefits of any compensation, bonus, pension, life insurance, medical and hospitalization insurance or other employee benefit plan or program to which he or she otherwise might be or become entitled as an officer or employee of the Company.

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

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

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

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

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