

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1996

or

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 (I.R.S. Employer
incorporation or organization) Identification No.)

One Rockefeller Plaza
Suite 1430
New York, New York 10020

(Address of principal executive offices)

(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 No

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date. The number of shares of
common stock, par value \$.01 per share, outstanding on August 12, 1996 was
10,383,902.

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Harris & Harris Group, Inc.
Form 10Q, June 30, 1996

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Harris & Harris Group, Inc.
Form 10-Q, June 30, 1996

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

On June 30, 1994, the Company's shareholders approved a proposal to allow the Company to make an election to become a Business Development Company ("BDC") under the Investment Company Act of 1940, as amended. The Company made such election on July 26, 1995. Certain information and disclosures normally included in the 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 financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1995 contained in the Company's 1995 Annual Report.

<TABLE>
<CAPTION>

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

<S>	<C>	<C>
	June 30, 1996	December 31, 1995
	(Unaudited)	(Audited)

Investments, at value (See accompanying schedule of investments and notes) . . .	\$ 38,175,402	\$ 35,929,289
Cash	241,628	364,354
Receivable from brokers	0	205,789
Interest receivable	217,760	300,718
Taxes receivable	851,847	367,929
Prepaid expenses	51,958	86,976
Other assets	257,185	269,500
	-----	-----
Total assets	\$ 39,795,780	\$ 37,524,555
	=====	=====

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities . . .	\$ 383,221	\$ 352,129
Deferred rent	55,260	59,887
Deferred income tax liability (Note 5) . . .	1,554,067	550,630
	-----	-----
Total liabilities	1,992,548	962,646
	-----	-----
Commitments and contingencies (Note 6)		
Net assets	\$ 37,803,232	\$ 36,561,909
	=====	=====

Net assets are comprised of:

Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0
Common stock, \$0.01 par value, 25,000,000 shares authorized; 10,383,902 issued and outstanding at 6/30/96 and 10,333,902 issued and outstanding at 12/31/95	103,839	103,339
Additional paid in capital	15,851,166	15,691,978
Accumulated net realized income	18,583,414	19,362,249
Accumulated unrealized appreciation of investments, net of deferred taxes of \$1,700,041 at 6/30/96 and \$698,250 at 12/31/95	3,264,813	1,404,343
	-----	-----
Net assets	\$ 37,803,232	\$ 36,561,909
	=====	=====

Shares outstanding	10,383,902	10,333,902
	-----	-----

Net asset value per outstanding share . . .	\$ 3.64	\$ 3.54
	=====	=====

</TABLE>

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

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS
(UNAUDITED)

<S>	<C>	<C>	<C>
	Three	Six	Six
	Months Ended	Months Ended	Months Ended
	June 30, 1996	June 30, 1996	June 30, 1995

Investment income:

Interest from:

Fixed-income securities . . .	\$ 203,526	\$ 430,864	\$ 493,695
-------------------------------	------------	------------	------------

Affiliated companies	10,111	20,111	0
Dividend income--Unaffiliated companies	3,934	8,024	8,436
Other income	10,810	35,706	1,782
	-----	-----	-----
Total income	228,381	494,705	503,913
Expenses:			
Salaries and benefits.	387,675	784,306	761,381
Administration and operations. . .	132,106	254,318	214,157
Consulting fees.	155,082	245,703	89,212
Professional fees.	60,993	97,277	60,878
Depreciation and amortization. . .	18,687	28,687	140,980
Rent	39,498	77,844	57,594
Directors' fees and expenses . . .	14,671	27,071	12,886
Custodian fees	2,995	6,111	6,378
	-----	-----	-----
Total expenses	811,707	1,521,317	1,343,466
Operating loss before income taxes	(583,326)	(1,026,612)	(839,553)
Income tax benefit (Note 5). . . .	199,147	353,277	586,926
	-----	-----	-----
Net operating loss	(384,179)	(673,335)	(252,627)
Net realized loss on investments:			
Realized loss on sale of investments	(226,727)	(162,307)	(205,484)
	-----	-----	-----
Total realized loss.	(226,727)	(162,307)	(205,484)
Income tax benefit (Note 5). . . .	79,354	56,807	71,919
	-----	-----	-----
Net realized loss on investments	(147,373)	(105,500)	(133,565)
	-----	-----	-----
Net realized loss.	(531,552)	(778,835)	(386,192)
	-----	-----	-----
Net increase (decrease) in unrealized appreciation on investments:			
Decrease on investments held . . .	(937,004)	(910,779)	(335,267)
Increase on investments held . . .	2,574,066	3,771,035	1,510,694
Increase as a result of investment sales.	2,005	2,005	291,277
	-----	-----	-----
Total unrealized appreciation on investments	1,639,067	2,862,261	1,466,704
Income tax provision (Note 5). . .	(573,673)	(1,001,791)	(513,317)
	-----	-----	-----
Net increase in unrealized appreciation on investments . . .	1,065,394	1,860,470	953,387
	-----	-----	-----
Net increase in net assets from operations:			
Total.	\$ 533,842	\$ 1,081,635	\$ 567,195
	=====	=====	=====
Per outstanding share.	\$ 0.05	\$ 0.10	\$ 0.05
	=====	=====	=====

</TABLE>

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

<TABLE>

<CAPTION>

STATEMENT OF CASH FLOWS
(UNAUDITED)

<S>

<C>

<C>

Six Six
Months Ended Months Ended
June 30, 1996 June 30, 1995

Cash flows from operating activities:

Net increase in net assets		
resulting from operations.	\$ 1,081,635	\$ 567,195
Adjustments to reconcile increase		
(decrease) in net assets from		
operations to net cash provided		
(used) by operating activities:		
Net realized and unrealized gain on		
investments	(2,699,954)	(1,261,220)
Deferred income taxes.	1,003,437	701,873
Depreciation and amortization.	28,687	140,980
Other.	(5,520)	15,373
Changes in assets and liabilities:		
Receivable from brokers.	205,789	4,041,391
Prepaid expenses	35,018	22,654
Interest receivable.	82,958	(88,292)
Taxes receivable	(411,730)	(847,401)
Other assets	8,648	(13,406)
Accounts payable and accrued liabilities	31,092	(145,777)
Collection on note receivable.	0	54,664
Purchase of fixed assets	(25,020)	(3,879)
	-----	-----

Net cash provided (used) by operating activities (664,960) 3,184,155

Cash flows from investing activities:

Net sale (purchase) of short-term investments		
and marketable securities.	4,300,537	(5,808,634)
Investment in private placements	(3,845,803)	(2,429,540)
	-----	-----

Net cash provided (used) by investing activities. 454,734 (8,238,174)

Cash flows from financing activities:

Proceeds from exercise of stock options.	87,500	62,500
Proceeds from private placement of		
common stock.	0	5,000,001
	-----	-----

Net cash provided by financing activities 87,500 5,062,501

Cash at beginning of period.	364,354	221,457
Cash at end of period.	241,628	229,939
	-----	-----

Net (decrease) increase in cash. \$ (122,726) \$ 8,482

Supplemental disclosures of cash flow information:

Income taxes paid.	\$ 2,145	\$ 8,323
	=====	=====

</TABLE>

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<TABLE>
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STATEMENT OF CHANGES IN NET ASSETS
(UNAUDITED)

<S> <C> <C> <C>
 Three Six Six
 Months Ended Months Ended Months Ended

June 30, 1996 June 30, 1996 June 30, 1995

Changes in net assets from operations:

Net operating loss	\$ (384,179)	\$ (673,335)	\$ (252,627)
Net realized loss on investments	(147,373)	(105,500)	(133,565)
Net increase in unrealized appreciation on investments held.	1,065,394	1,860,470	953,387
	-----	-----	-----
Net increase in net assets resulting from operations . .	533,842	1,081,635	567,195

Capital stock transactions:

Restricted Stock Award	0	0	(536,146)
Proceeds from exercise of stock options.	0	87,500	62,500
Tax benefit of exercise of stock options.	0	72,188	0
Proceeds from private placement of common stock.	0	0	5,000,001
	-----	-----	-----
Net increase from capital stock transactions	0	159,688	4,526,355

Net increase in net assets.	533,842	1,241,323	5,093,550
--	---------	-----------	-----------

Net assets:

Beginning of period.	37,269,390	36,561,909	31,310,802
	-----	-----	-----
End of period.	\$ 37,803,232	\$ 37,803,232	\$ 36,404,352
	=====	=====	=====

</TABLE>

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

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS JUNE 30, 1996
(UNAUDITED)

<S>	<C>	<C>	<C>
	Method of	Shares	Value
	Valuation (3)		
	-----	-----	-----

Investments in Unaffiliated Companies (9) -- 13.8% of total investments

Publicly-Traded Portfolio (Common Stock unless noted otherwise)

Oil and Gas Related -- 0.8%			
CORDEX Petroleums, Inc. (1)(5)			
Argentinian oil and gas exploration			
Class A Common Stock. (C)	4,052,080	\$	315,224

Biotechnology and Healthcare Related -- 5.9%			
Alliance Pharmaceutical			
Corporation (1)(5) (C)	70,000	1,155,000	
Magellan Health			
Services, Inc. (1)(2)(5)(6). (C)	54,368	1,100,725	

Computerized Wagering Systems -- 0.2%
Autotote Corp (1)(4) (C) 30,000 61,875

Total Publicly-Traded Portfolio (cost: \$1,240,105) \$ 2,632,824

Private Placement Portfolio (Illiquid) -- 6.9%

CORDEX Petroleum, Inc. (1)(2)(5)
Argentinian oil and gas exploration
Special Warrants (C) 1,667,000 \$ 0
Exponential Business Development
Company (1)(2)(5)
Venture capital partnership focused
on early stage companies
0.9% Limited partnership interest (A) -- 25,000
Princeton Video Image, Inc. (1)(2)(7)(8)
Real time sports and entertainment advertising
3.6% of fully-diluted equity (B) 68,400
Warrants at \$2.25 expiring 8/97 (D) 6,700 2,613,425

Total Private Placement Portfolio (cost: \$668,000) \$ 2,638,425

Total Investments in Unaffiliated Companies (cost: \$1,908,105) \$ 5,271,249

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS JUNE 30, 1996
(UNAUDITED)

<S>	<C>	<C>	<C>
	Method of Valuation (3)	Shares/ Principal	Value
	-----	-----	-----

Private Placement in Non-Controlled Affiliates (Illiquid) -- 31.2%

Dynecology Incorporated (1)(2)(5)(7) --			
Develops various environmental intellectual properties -- Option expiring 12/13/98 to purchase at \$15 per share			
135,000 shares of Common Stock equaling 18.1% of fully-diluted equity (D) -- \$ 50,000			
Gel Sciences, Inc. (1)(2)(7) -- Develops engineered response gels for controlled release systems -- 11.1% of fully-diluted equity			
Warrants -- 27,766 at \$1.65 expiring 02/01/00 (D) --			
Common Stock (B) 171,172			
Series A Preferred Stock (D) 135,178			
Series A-1 Preferred Stock (D) 57,607			
Series B Convertible Preferred Stock . . . (B) 397,409			
Series C Convertible Preferred Stock . . . (B) 101,515 2,340,742			
Harber Brothers Productions, Inc. (1)(2)(5)(7) --			
Finances, produces and markets media products that combine entertainment, music, learning and interactivity --			
21.5% of fully-diluted equity			
Series A Voting Convertible Preferred Stock (A) 967,500 967,500			
Highline Capital Management, LLC (2)(5)(7) --			
Organizes and manages investment partnerships			
24.9% of fully-diluted equity (A) -- 500,000			

Micracor, Inc. (1)(2)(7) -- Designs and manufactures advanced solid state photonic systems -- 8.6% of fully-diluted equity Series F Convertible Preferred Stock -- 444,444 shares and 1,199,999 Warrants at \$2.25 expiring 7/20/99. (D) --	333,333	
Convertible Note. (D) \$	103,000	107,241
Nanophase Technologies Corporation		
(1)(2)(5)(7) -- Manufactures and markets inorganic crystals of nanometric dimensions 7.6% of fully-diluted equity		
Series D Convertible Preferred Stock. . . (B)	1,162,204	2,614,959
NeuroMetrix, Inc. (1)(2)(4)(7) -- Developing a device for diabetics to monitor their blood glucose -- 30% of fully-diluted equity 125,000 Warrants to purchase Series B Preferred Stock at \$1.60 expiring 6/2/97. . (A)		
Series A Convertible Preferred Stock. . . (A)	175,000	210,000
PHZ Capital Partners Limited Partnership (1)(2)(5)(7)		
Organizes and manages investment partnership 20.0% of fully-diluted equity (B)	1,000,000	
One year 8% note due 9/22/96. (A) \$	500,000	500,000
PureSpeech, Inc. (1)(2)(4)(7) -- Software development company specializing in innovative speech recognition technology 8.6% of fully-diluted equity		
Series A Convertible Preferred Stock. . . (A)	190,476	999,999

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS JUNE 30, 1996
(UNAUDITED)

<S>	<C>	<C>	<C>
	Method of	Shares	Value
	Valuation (3)		
	-----	-----	-----

Private Placement in Non-Controlled Affiliates (continued)

Questech Corporation (1)(2)(5)(13) --			
Manufactures and markets proprietary decorative tiles and signs -- 19.0% of fully-diluted equity			
Common Stock. (B)	565,792	\$ 2,263,168	
Warrants at \$4.00 expiring 11/28/01 . . (A)	166,667	167	
Sonex International Corporation (1)(2)(5) --			
Manufactures and markets an ultrasonic toothbrush for home use 17.6% of fully-diluted equity			
Series A Non-Voting Convertible Preferred Stock. (D)	588,935		
Common Stock. (D)	34,000	1	

Total Private Placement Portfolio in Non-Controlled Affiliates (cost: \$12,165,517)		\$ 11,887,110	

Private Placement Portfolio in Controlled Affiliates (Illiquid) -- 14.2%

Genomica Corporation (1)(2)(4)(7)(10) --			
Develops software that enables the study of complex genetic diseases 29.2% of fully-diluted equity			
Series A Convertible Preferred Stock. . (A)	1,660,200		
Common Stock. (A)	199,800	\$ 1,000,304	

nFX Corporation (1)(2)(7) -- Develops neural-network software 36.0% of fully-diluted equity Series A Voting Convertible Preferred Stock (B)	1,294,288	2,888,980
Series B Non-Voting Convertible Preferred Stock (B)	689,920	1,539,979

Total Private Placement Portfolio
in Controlled Affiliates (cost: \$3,537,024). \$ 5,429,263

U.S. Government Obligations -- 40.8 %

U.S. Treasury Note dated 03/01/93 due date 02/28/98 -- 5.8% yield. (C)		\$ 4,926,550
U.S. Treasury Bill dated 02/15/96 due date 08/15/96 -- 5.1% yield. (A)		4,736,230
U.S. Treasury Bill dated 03/14/96 due date 09/12/96 -- 4.9% yield. (A)		5,925,000

Total Investments in U.S. Government Obligations
(cost: \$15,599,902). \$ 15,587,780

Total Investments -- 100% (cost: \$33,210,548). \$ 38,175,402
=====

</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS JUNE 30, 1996
(UNAUDITED)

Notes to Schedule of Investments

1. Represents a non-income producing security. Equity investments that have not paid dividends within the last twelve months are considered to be non-income producing.
2. Legal restrictions on sale of investment.
3. See Footnote to Schedule of Investments for a description of the Methods of Valuation A to L.
4. These investments were made during 1996.
5. There were no purchases or sales of these securities during the six months ended June 30, 1996.
6. Formerly named National Mentor Holding Corp., Magellan Health Services, Inc. was later acquired by Charter Medical Corporation, which subsequently changed its name to Magellan Health Services, Inc.
7. These investments are in development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either has not yet commenced its planned principal operations or has commenced such operations but has not realized significant revenue from them.
8. Formerly named Princeton Electronic Billboard, Inc.
9. Investments in unaffiliated companies consist of investments where the Company owns less than 5% of the investee company. Investments in non-controlled affiliated companies consist of investments where the Company owns more than 5% but less than 25% of the investee company. Investments in controlled affiliated companies consist of investments where the Company owns more than 25% of the investee company.
10. Genomica Corporation was co-founded by Harris & Harris Group, Inc., Cold Spring Harbor Laboratory and Falcon Technology Partners, LP. Mr. G. Morgan Browne serves on the Board of Harris & Harris Group, Inc. and is Administrative Director of Cold Spring Harbor Laboratory.
11. The aggregate cost for federal income tax purposes of investments in unaffiliated companies is \$2,015,782. The gross unrealized appreciation based on tax cost for these securities is \$3,476,150. The gross

unrealized depreciation on the cost of these securities is \$220,683.

12. The percentage ownership of each investee, disclosed in the Schedule of Investments, expresses the potential common equity interest in each such investee. The calculated percentage represents the amount of issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common stock plus common shares reserved for issued and outstanding warrants, convertible securities and stock options.

13. Formerly named Intaglio, Ltd.

The accompanying notes are an integral part of this schedule.

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FOOTNOTE TO SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

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

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

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

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

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

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

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

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EQUITY-RELATED SECURITIES

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

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

the original investment that dictate a change to another valuation method. Some examples of such events are: 1) a major recapitalization; 2) a major refinancing; 3) a significant third-party transaction; 4) the development of a meaningful public market for the company's common stock; 5) material 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, contractual or practical 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 System is the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day is the mean of the closing bid price and ask price on that day.

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

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

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

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

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

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

G. Analytical Method: The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This

valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent and projected markets.

LONG-TERM FIXED-INCOME SECURITIES

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

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

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

SHORT-TERM FIXED-INCOME INVESTMENTS

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

ALL OTHER INVESTMENTS

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

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

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NOTES TO FINANCIAL STATEMENTS (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 July 31, 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 Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Reclassifications. Certain reclassifications have been made to the December 31, 1995 financial statements to conform to the June 30, 1996 presentation.

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Estimates by Management. The preparation of the financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of June 30, 1996 and December 31, 1995, and the reported amounts of income and expenses for the three months and six months ended June 30, 1996. Actual results could differ from these estimates.

NOTE 3. STOCK OPTION PLAN AND WARRANTS OUTSTANDING

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

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

At June 30, 1996, there were 2,076,780 shares of common stock reserved for the issuance of stock option awards under the Amended 1988 Plan, of which 1,423,763 were subject to outstanding options and warrants and 653,017 were available for future awards.

The 1988 Plan provides for the issuance of incentive stock options and

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

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The following table summarizes changes in outstanding stock options under the 1988 Plan:

<S>	<C> Number of Shares	<C> Option Exercise Price Per Share
	-----	-----
Outstanding at December 31, 1995	1,050,000	\$1.1875 - \$5.75
Issued	80,000	\$6.1875 - \$7.00
Canceled	0	0
Exercised	50,000	\$1.75
	-----	-----
Outstanding at June 30, 1996	1,080,000	\$1.1875 - \$7.00
	=====	=====

</TABLE>

As of June 30, 1996, there were outstanding warrants to purchase 343,763 shares of common stock at a price of \$2.0641 per share expiring in 1999.

NOTE 4. EMPLOYEE BENEFITS

As of August 15, 1990, the Company entered into non-competition, employment and severance contracts with its Chairman, Charles E. Harris, and with its Executive Vice President, C. Richard Childress, pursuant to which they are to receive compensation in the form of salaries and other benefits. These contracts were amended on June 30, 1992, January 3, 1993, and June 30, 1994. The term of the contracts expires on December 31, 1999.

Base salaries are to be increased annually to reflect inflation and in addition may be increased by such amounts as the Board of Directors of the Company (the "Board") deems appropriate.

In addition, Messrs. Harris and Childress are entitled under certain circumstances to receive severance pay under the employment and severance contracts.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. The Company's contributions to the plan are determined by the Compensation Committee in the fourth quarter.

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. The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided a reserve of \$206,630 as of December 31, 1995 for estimated future benefits under the described plan.

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NOTE 5. INCOME TAXES

The Company has not elected tax treatment available to regulated investment companies under Subchapter M of the Internal Revenue Code.

Accordingly, for federal and state income tax purposes, the Company is taxed at statutory corporate rates on its income, which enables the Company to offset any future net operating losses against prior years' net income. The Company may carry back operating losses against net income three years and carry forward such losses fifteen years.

For the six months and three months ended June 30, 1996, the Company's income tax provision was allocated as follows:

<S>	<C>	<C>	<C>
	Three Months	Six Months	Six Months
	Ended 6/30/96	Ended 6/30/96	Ended 6/30/95
Investment operations	\$ (199,147)	\$ (353,277)	\$ (586,926)
Realized loss on investments . . .	(79,354)	(56,807)	(71,919)
Net increase in unrealized appreciation on investments . .	573,673	1,001,791	513,317
	-----	-----	-----
Total income tax provision	\$ 295,172	\$ 591,707	\$ (145,528)
	=====	=====	=====

The above tax provision consists of the following:

	Three months	Six months	Six Months
	Ended 6/30/96	Ended 6/30/96	Ended 6/30/95
Current -- Federal	\$ (277,136)	\$ (411,729)	\$ (847,401)
Deferred -- Federal	572,308	1,003,436	701,873
	-----	-----	-----
Total income tax provision	\$ 295,172	\$ 591,707	\$ (145,528)
	=====	=====	=====

</TABLE>

The effective tax rate differs from the Federal statutory rate primarily as a result of tax deductible expenses not allowed for book.

The Company's deferred tax liability at June 30, 1996 consists of the following:

Unrealized net appreciation on investments	\$ 1,700,041
Medical retirement benefits	(72,320)
Other	(73,654)

Net deferred income tax liability	\$ 1,554,067
	=====

The exercise of nonqualified stock options and certain warrants give rise to compensation which is includable in the taxable income of recipients and deductible by the Company for federal and state income tax purposes. Compensation resulting from increases in the fair market value of the Company's common stock subsequent to the date of grant of the applicable exercised stock options and warrants is not recognized, in accordance with Accounting Principles Board Opinion No. 25, as an expense for financial reporting purposes.

NOTE 6. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for its office space. Rent expense under this lease for the six and three months ended June 30, 1996, amounted to \$77,844 and \$39,498 respectively. Future minimum lease payments in each of the following years are: 1997 -- \$164,484; 1998 -- \$168,768; 1999 -- \$176,030; 2000 -- \$178,560; 2001 -- \$178,560; thereafter \$280,506.

The Company has guaranteed a three-year lease obligation of approximately \$21,000 per annum for the office space of one of its investees, Highline Capital Management LLC.

In December 1993, the Company and MIT announced the establishment by the Company of the Harris & Harris Group Senior Professorship at MIT. Prior to

the arrangement for the establishment of this Professorship, the Company had made gifts of stock in start-up companies to MIT. These gifts, together with the contribution of \$700,000 in cash in 1993, which was expensed by the Company in 1993, were used to establish this named chair.

The Company contributed to MIT \$3,280, \$20,000 and \$20,000 in 1993, 1994, and 1995, respectively. These amounts represent the cost basis to the Company of the securities donated. These contributions will be applied to the MIT Pledge at their market value at the time the shares become publicly traded or otherwise monetized in a commercial transaction and are free from restriction as to sale by MIT.

At June 30, 1996, the Company would have to fund additional cash and/or property that would have to be valued at a total of \$756,720 by December, 1998 in order for the Senior Professorship to become permanent.

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

Statement of Operations

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

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

Financial Condition at June 30, 1996

The Company's total assets and net assets were, respectively, \$39,795,780 and \$37,803,232 at June 30, 1996, versus \$37,524,555 and \$36,561,909 at December 31, 1995. Net asset value per share was \$3.64 at June 30, 1996 versus \$3.54 at December 31, 1995.

The Company's financial condition is dependent on the success of its investments. The Company has invested and expects to continue to invest a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth or have no history of operations. At June 30, 1996, 50.1 percent of the Company's \$39.8 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was \$3.6 million. At December 31, 1995, 35.5 percent of the Company's \$37.5 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was \$0.8 million.

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

<TABLE>

<S>

<C>

<C>

June 30, 1996 December 31, 1995

Investments, at cost	\$ 33,210,548	\$ 33,826,696
Unrealized appreciation	4,964,854	2,102,593
	-----	-----
Investments, at fair value	\$ 38,175,402	\$ 35,929,289
	=====	=====

</TABLE>

Following an initial investment in a private company, the Company may make additional investments in such investee in order to: (1) increase its ownership percentage; (2) exercise warrants or options that were acquired in a prior 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. Such additional investments are referred to as "follow-on" investments. There can be no assurance that the Company will make follow-on investments or have sufficient funds to make additional investments. The failure to make such follow-on investments could jeopardize the viability of the investee company and the Company's investment or could result in a missed opportunity for the Company to participate to a greater extent in an investee's successful operations. The Company attempts to maintain adequate liquid capital to be in a position to make follow-on investments in its private investee portfolio companies. The Company may elect not to make a follow-on investment either because it does not want to increase its concentration of risk or because it prefers other opportunities, even if the follow-on investment opportunity appears attractive.

The following table is a summary of the cash investments made by the Company in its private placement portfolio during the six months ended June 30, 1996:

	Amount

PureSpeech, Inc. (1)	\$ 999,999
Genomica, Inc. (1)	1,000,304
nFX Corporation (2)	440,000
Micracor, Inc. (2)	103,000
NeuroMetrix, Inc. (1)	210,000
Gel Sciences, Inc. (2)	545,000
Princeton Video Image, Inc. (3)	547,500

Total	\$ 3,845,803
	=====

- (1) New investee company
- (2) Addition to existing investment in an investee company
- (3) Exercise of warrants

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Results of Operations

Investment Income and Expenses:

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and provides little or no current yield in the form of dividends or interest. The Company does earn interest income from fixed-income investments. The amount of interest income varies based upon the average level of cash funds invested during the year and fluctuations in interest rates.

The Company had interest income of \$430,864 and \$493,695 for the six months ended June 30, 1996 and 1995, respectively. The decrease is a result of less available cash for interest-bearing investments due to increased non-income producing private portfolio investments. The Company also received consulting and administrative fees from certain portfolio companies which totaled \$35,706 and \$1,782 for the six months ended June 30, 1996 and 1995, respectively.

Operating expenses were \$1,521,317 and \$1,343,466 for the six months ended June 30, 1996 and 1995, respectively. The increase is primarily due to

additional consulting fees incurred in 1996 related to prospective private portfolio investments. Most of the Company's operating expenses are related to employee and director compensation, office expenses, consulting and professional fees (primarily legal and accounting).

Net operating losses before taxes were \$1,026,612 and \$839,553 for the six months ended June 30, 1996 and 1995, respectively.

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

Realized Gains and Losses on Sales of Portfolios Securities:

During the six months ended June 30, 1996 and 1995, the Company sold various public securities realizing a net pre-tax loss of \$162,307 and \$205,484, respectively.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments increased during the three months ended June 30, 1996, from \$2,199,419 to \$3,264,813, owing primarily to increased valuations for Gel Sciences, Inc. and Nanophase Technologies offset by the decreased valuation of Micracor Inc., Sonex International Corporation, Dynecology, Inc., Alliance Pharmaceutical Corp., Magellan Health Services and Cordex Petroleums, Inc.

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Net unrealized appreciation on investments increased during the six months ended June 30, 1996, from \$1,404,343 to \$3,264,813, owing primarily to increased valuations for Princeton Video Image, Inc., PHZ Capital Partners, Alliance Pharmaceutical Corp., Gel Sciences, Inc. and Nanophase Technologies offset by the decreased valuation of Micracor Inc., Sonex International Corporation, Dynecology, Inc. and Cordex Petroleums, Inc.

Net unrealized appreciation on investments increased during the six months ended June 30, 1995 from \$1,246,124 to \$2,199,511, owing primarily to increased valuations for Cordex Petroleums, Inc. and Questech Corporation offset by the decreased valuation of Dynecology, Inc. and Magellan Health Services.

Liquidity and Capital Resources

The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at June 30, 1996 of \$19,531,839, versus \$23,833,891 at December 31, 1995. Management believes that its cash, receivables and marketable securities provide it with sufficient liquidity for its operations.

Risks

Pursuant to Section 64 (b) (1) of the Investment Company Act of 1940, a business development company is required to describe the risk factors involved in an investment in the securities of such company due to the nature of the company's investment portfolio. There are significant risks inherent in the registrant's venture capital business. The Company has invested and will continue to invest 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 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 that potential. The Company has and shall continue to be risk seeking rather than risk adverse in its approach to its venture capital and other investments. Neither the Company's investments nor an investment in the Company is intended to

constitute a balanced investment program. The Company does not currently intend to pay cash dividends. 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

On Thursday, April 11, 1996, Registrant held its Annual Meeting of Shareholders for the following purposes: 1) to elect directors of the Company; 2) to ratify, confirm and approve the Board of Directors' selection of Arthur Andersen LLP as the Company's independent public accountant for its fiscal year ending December 31, 1996. All of the nominees at the April 11, 1996 Annual Meeting were elected directors by an affirmative vote of at least 93% of the total shares outstanding. With respect to purpose number two, described as a proposal "to ratify, confirm and approve the Board of Directors' selection of Arthur Andersen LLP" as the Company's independent public accountant for its fiscal year ending December 31, 1996, the affirmative votes cast were 9,706,407, the negative votes cast were 63,180 and those abstaining were 12,970, effecting passage.

Item 5. Other Information

Item 6. Exhibits and reports on Form 8-K

(a) See Exhibit Index for Exhibits to the Form 10-Q

(b) None

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EXHIBIT INDEX

Item Number (of Item 601 of Regulation S-K)

27. Financial Data Schedule

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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.

By: /s/
Rachel M. Pernia, Vice President
Treasurer, Controller and Principal
Accounting Officer

Date: August 13, 1996

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