SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1997

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 incorporation or organization)	(I.R.S. Employer 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 X 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 October 29, 1997 was 10,584,971.

Harris & Harris Group, Inc.
Form 10-Q, September 30, 1997

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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 be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1996 contained in the Company's 1996 Annual Report.

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification in 1998 as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code. As a RIC, the Company must distribute at least 90% of its taxable net investment income and may either distribute or retain its taxable net realized capital gains on investments. There can be no assurance that the Company will qualify as a RIC or that if it does qualify that it will continue to qualify.

<TABLE>
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STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

<S>	<C> September 30, 1997 (Unaudited)	<C> December 31, 1996 (Audited)
Investments, at value (See accompanying schedule of investments and notes) . . .	$ 29,049,614	$ 35,648,682
Cash and cash equivalents.	202,438	155,440
Interest receivable.	74,602	198,342
Taxes receivable (Note 5).	2,506,512	2,119,492
Receivable from brokers.	557,606	0
Prepaid expenses	17,319	81,501
Other assets	228,288	351,833
Total assets	$ 32,636,379	$ 38,555,290

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities .	$ 481,478	$ 374,326
Deferred rent.	53,975	60,914
Deferred income tax liability (Note 5) . .	246,957	2,187,447
	------------	------------
Total liabilities.	782,410	2,622,687
Commitments and contingencies (Note 6)	------------	------------
Net assets	$ 31,853,969	$ 35,932,603
	============	============
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$ 0	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized; 10,442,682 issued and outstanding at 9/30/97 and 12/31/96	104,427	104,427
Additional paid in capital	15,850,576	15,850,576
Accumulated net realized income.	15,066,154	15,606,009
Accumulated unrealized appreciation of investments, net of deferred tax liability of $390,502 at 9/30/97 and $2,295,998 at 12/31/96.	832,812	4,371,591
	------------	------------
Net assets	$ 31,853,969	$ 35,932,603
	============	============
Shares outstanding	10,442,682	10,442,682
	------------	------------
Net asset value per outstanding share.	$ 3.05	$ 3.44
	============	============

</TABLE>

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

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STATEMENTS OF OPERATIONS
(Unaudited)

<S>	<C> Three Months Ended Sept. 30, 1997	<C> Three Months Ended Sept. 30, 1996	<C> Nine Months Ended Sept. 30, 1997	<C> Nine Months Ended Sept. 30, 1996
Investment income:				
Interest from:				
Fixed-income securities	$ 147,099	$ 194,570	$ 362,330	$ 625,434
Affiliated companies. .	11,111	9,556	30,000	29,667
Dividend Income -- Unaffiliated Companies	0	0	0	8,024
Other income.	10,000	13,440	18,369	49,146
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Total investment income	168,210	217,566	410,699	712,271
Expenses:				
Salaries and benefits . .	442,888	367,772	1,229,131	1,152,078
Administration and operations.	77,800	130,061	303,576	384,379
Professional fees	47,071	132,208	189,900	475,188
Directors' fees and expenses.	36,577	20,132	87,303	47,203
Rent.	28,846	41,784	101,562	119,628
Depreciation.	15,000	14,500	45,000	43,187
Custodian fees.	5,039	2,929	12,182	9,040
Restructuring expenses. .	100,000	0	100,000	0
	-----------	-----------	-----------	-----------
Total expenses	753,221	709,386	2,068,654	2,230,703
	-----------	-----------	-----------	-----------
Operating loss before income taxes.	(585,011)	(491,820)	(1,657,955)	(1,518,432)
Income tax benefit (Note 5)	497,297	171,181	665,644	524,458
	-----------	-----------	-----------	-----------
Net operating loss.	(87,714)	(320,639)	(992,311)	(993,974)
Net realized (loss) gain on investments:				
Realized (loss) gain on sale of investments	(95,052)	(51,277)	696,086	(213,584)
	-----------	-----------	-----------	-----------
Total realized (loss) gain	(95,052)	(51,277)	696,086	(213,584)
Income tax benefit				

(provision) (Note 5)	33,268	17,947	(243,630)	74,754
Net realized (loss) gain on investments	(61,784)	(33,330)	452,456	(138,830)
Net realized loss. . . .	(149,498)	(353,969)	(539,855)	(1,132,804)
Net increase (decrease) in unrealized appreciation on investments:				
Increase as a result of investments sales	102,314	37,831	0	0
Decrease as a result of investments sales	(391,084)	0	(1,730,910)	0
Increase on investments held	2,391,856	93,404	4,770,561	3,885,217
Decrease on investments held	(953,126)	(518,112)	(8,483,926)	(1,409,833)
Change in unrealized appreciation on investments . . .	1,149,960	(386,877)	(5,444,275)	2,475,384
Income tax (provision) benefit (Note 5)	(390,502)	135,406	1,905,496	(866,385)
Net increase (decrease) in unrealized appreciation on investments.	759,458	(251,471)	(3,538,779)	1,608,999
Net increase (decrease) in net assets from operations:				
Total.	$ 609,960	$ (605,440)	$(4,078,634)	$ 476,195
Per outstanding share	$ 0.06	$ (0.06)	$ (0.39)	$ 0.05

</TABLE>

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

<TABLE>
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STATEMENTS OF CASH FLOWS
(Unaudited)

<S>	<C> Nine Months Ended September 30, 1997	<C> Nine Months Ended September 30, 1996
Cash flows (used in) provided by operating activities:		
Net (decrease) increase in net assets resulting from operations	$ (4,078,634)	$ 476,195
Adjustments to reconcile (decrease) increase in net assets from operations to net cash used in operating activities:		
Net realized and unrealized loss (gain) on investments.	4,748,189	(2,261,800)
Deferred income taxes	(1,940,490)	867,442
Depreciation.	45,000	43,187
Other	0	(1,893)
Changes in assets and liabilities:		
Receivable from brokers	(557,606)	205,789
Prepaid expenses.	64,182	58,288
Interest receivable	123,740	239,286
Taxes receivable.	(387,020)	(600,271)
Other assets.	102,162	(4,292)
Accounts payable and accrued liabilities	107,152	(21,664)
Deferred rent	(6,939)	3,341
Purchase of fixed assets.	(23,618)	(32,815)
Net cash used in operating activities	(1,803,882)	(1,029,207)
Cash flows provided by (used in) investing activities:		
Net sale of short-term investments and marketable securities	5,011,522	5,156,883

Investment in private placements. . .	(3,160,642)	(4,406,614)
Net cash provided by investing activities	1,850,880	750,269
Cash flows provided by financing activities:		
Proceeds from exercise of stock options	0	87,500
Net cash provided by financing activities	0	87,500
Net increase (decrease) in cash and cash equivalents:		
Cash and cash equivalents at beginning of the period	155,440	364,354
Cash and cash equivalents at end of the period	202,438	172,916
Net increase (decrease) in cash and cash equivalents	$ 46,998	$ (191,438)
Supplemental disclosures of cash flow information:		
Income taxes paid.	$ 5,959	$ 57,234

</TABLE>

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<TABLE>
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STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

<S>	<C>	<C>	<C>	<C>
	Three Months Ended Sept. 30, 1997	Three Months Ended Sept. 30, 1996	Nine Months Ended Sept. 30, 1997	Nine Months Ended Sept. 30, 1996
Changes in net assets from operations:				
Net operating loss	$ (87,714)	$ (320,639)	$ (992,311)	$ (993,974)
Net realized (loss) gain on investments	(61,784)	(33,330)	452,456	(138,830)
Net (decrease) increase in unrealized appreciation on investments as a result of sales. .	(190,710)	24,590	(1,125,092)	0
Net increase (decrease) in unrealized appreciation on investments held	950,168	(276,061)	(2,413,687)	1,608,999
Net increase (decrease) in net assets resulting from operations	609,960	(605,440)	(4,078,634)	476,195
Changes in net assets from capital stock transactions:				
Proceeds from exercise of stock options	0	0	0	87,500
Tax benefit of restricted stock award and common stock transactions	0	0	0	72,188
Net increase in net assets resulting from capital stock transactions	0	0	0	159,688
Net increase (decrease) in net assets . . .	609,960	(605,440)	(4,078,634)	635,883
Net assets:				
Beginning of period	31,244,009	37,803,232	35,932,603	36,561,909

End of period	$ 31,853,969	$ 37,197,792	$ 31,853,969	$ 37,197,792
	============	============	============	============

</TABLE>

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<TABLE>
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SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1997
(Unaudited)

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Investments in Unaffiliated Companies (8)(13)(14) -- 12.0% of total investments			
Publicly Traded Portfolio (Common stock unless noted otherwise) -- 8.6% of total investments			
Oil and Gas Related			
CORDEX Petroleums Inc. (1) Argentine and Chilean oil and gas exploration Class A Common Stock.	(C)	4,052,080	$ 189,865
Biotechnology and Healthcare Related			
Fuisz Technologies, Ltd. (1)(4)	(C)	125,000	1,765,625
PharmaPrint, Inc. (1)(4)	(C)	20,000	270,000
Zonagen, Inc. (1)(4).	(C)	7,500	270,000

Total Publicly Traded Portfolio (cost: $1,673,212).			$ 2,495,490
Private Placement Portfolio (Illiquid) -- 3.4% of total investments			
Exponential Business Development Company (1)(2)(5) Venture capital partnership focused on early stage companies Limited partnership interest	(A)	--	$ 25,000
Princeton Video Image, Inc. (1)(2)(6)(7) Real time sports and entertainment advertising 2.8% of fully diluted equity Common Stock	(D)	150,200	976,300

Total Private Placement Portfolio (cost: $683,075).			$ 1,001,300

Total Investments in Unaffiliated Companies (cost: $2,356,287).			$ 3,496,790

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
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SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1997
(Unaudited)

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Private Placement Portfolio in Non-Controlled Affiliates (8)(14) (Illiquid) -- 51.5% of total investments			
Dynecology Incorporated (1)(2)(6) -- Develops various environmental intellectual properties -- Option expiring 12/16/98 to purchase at $15 per share 135,000 shares of Common Stock equaling 18.2% of fully diluted equity.	(D)	--	$ 25,000
Gel Sciences, Inc. (1)(2)(6) -- Develops engineered response gels			

for controlled release systems -- 10.9% of fully diluted equity			
Warrants at $1.65 expiring 02/01/00	(D)	27,766	
Common Stock.	(D)	171,172	
Series A Preferred Stock.	(D)	135,178	
Series A-1 Preferred Stock.	(D)	57,607	
Series B Convertible Preferred Stock.	(D)	397,409	
Series C Convertible Preferred Stock.	(D)	101,515	
Demand Promissory Note.	(A)	$ 316,000	696,000
Genomica Corporation (1)(2)(6)(9) -- Develops software that enables the study of complex genetic diseases -- 11.0% of fully diluted equity			
Common Stock.	(A)	199,800	
Series A Voting Convertible Preferred Stock .	(A)	1,660,200	1,000,304
Harber Brothers Productions, Inc. (1)(2)(6) -- Finances, produces and markets media products that combine entertainment, music, learning and interactivity -- 18.7% of fully diluted equity			
Series A Voting Convertible Preferred Stock	(D)	967,500	1
Demand Promissory Note.	(D)	$ 250,000	1
Highline Capital Management, LLC. (2)(5) -- Organizes and manages investment partnerships -- 24.9% of fully diluted equity.	(A)	--	500,000
Highline Offshore Advisors, LLC. (1)(2)(4)(6) -- Organizes and manages offshore investment vehicles -- 24.9% of fully diluted equity.	(A)	--	500,000
NBX Corporation (1)(2)(6)(11) -- Exploits innovative distributed computing technology for use in small business telephone systems -- 15.4% of fully diluted equity			
Series A Convertible Preferred Stock.	(B)	500,000	
Series C Convertible Preferred Stock.	(B)	240,793	
Series D Convertible Preferred Stock.	(B)	59,965	4,540,298
Nanophase Technologies Corporation (1)(2)(6) -- Manufactures and markets inorganic crystals of nanometric dimensions 6.4% of fully diluted equity			
Series D Convertible Preferred Stock.	(B)	1,162,204	3,486,612
PHZ Capital Partners Limited Partnership (2)(5) -- Organizes and manages investment partnerships -- 20.0% of fully diluted equity			
Limited partnership interest.	(B)		1,000,000
One year 8% note due 9/22/98.	(A)	$ 500,000	500,000
PureSpeech, Inc. (1)(2)(6) -- Develops and markets innovative speech recognition technology -- 8.3% of fully diluted equity			
Series A Voting Convertible Preferred Stock	(D)	476,190	187,120
Convertible Promissory Note	(A)	$ 243,980	243,980
Questech Corporation (1)(2)(5)(6)(10) -- Manufactures and markets proprietary decorative tiles and signs -- 15.4% of fully diluted equity			
Common Stock.	(D)	565,792	2,263,168
Warrants at $4.00 expiring 11/28/01	(A)	166,667	167

Total Private Placement Portfolio in Non-Controlled Affiliates (cost: $12,171,802)			$ 14,942,651

</TABLE>

The accompanying notes are an integral part of this schedule.

<TABLE>
<CAPTION>

SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1997
(Unaudited)

<S>	<C> Method of Valuation (3)	<C> Shares/ Principal	<C> Value
Private Placement Portfolio in Controlled Affiliates (8)(14) (Illiquid) -- 4.4% of total investments			
BioSupplyNet, Inc. (1)(2)(6)(12) -- Expands commercially the print and World Wide Web product directories			

developed by Cold Spring Harbor Laboratory Press 38.3% fully diluted equity			
Series A Convertible Preferred Stock.	(A)	775,000	$ 775,000
MultiTarget, Inc. (1)(2)(6) -- Developing intellectual property related to localized treatment of cancer 37.5% of fully diluted equity			
Series A Convertible Preferred Stock.	(D)	375,000	0
NeuroMetrix, Inc. (1)(2)(6) -- Developing devices for: 1) diabetics to monitor their blood glucose and 2) detection of carpal tunnel syndrome -- 30.0% of fully diluted equity			
Series A Convertible Preferred Stock.	(A)	175,000	
Series B Convertible Preferred Stock.	(A)	125,000	410,000
nFX Corporation (1)(2) -- Develops neural-network software 38.3% of fully diluted equity			
Series A Voting Convertible Preferred Stock	(D)	1,294,288	
Series B Non-Voting Convertible Preferred Stock	(D)	689,920	
Demand Promissory Note.	(D)	$ 200,000	100,000
Total Private Placement Portfolio in Controlled Affiliates (cost: $4,028,116).			$ 1,285,000
U.S. Government Obligations -- 32.1% of total investments			
U.S. Treasury Note dated 03/01/93 due date 02/28/98 -- 5.125% rate	(H)	$ 5,000,000	$ 4,993,750
U.S. Treasury Bill dated 04/10/97 due date 10/09/97 -- 5.1% yield.	(K)	$ 400,000	396,432
U.S. Treasury Bill dated 11/14/96 due date 11/13/97 -- 5.5% yield.	(K)	$ 1,590,000	1,534,183
U.S. Treasury Bill dated 05/22/97 due date 11/20/97 -- 4.9% yield.	(K)	$ 600,000	595,280
U.S. Treasury Bill dated 05/29/97 due date 11/28/97 -- 4.8% yield.	(K)	$ 525,000	520,922
U.S. Treasury Bill dated 12/12/96 due date 12/11/97 -- 5.0% yield.	(K)	$ 1,300,000	1,284,606
Total Investments in U.S. Government Obligations (cost: $9,270,095)			$ 9,325,173
Total Investments -- 100% (cost: $27,826,300).			$ 29,049,614

</TABLE>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INVESTMENTS SEPTEMBER 30, 1997
(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 Method of Valuation A to L.
(4) These investments were made during 1997. Accordingly, the amounts shown on the schedule represent the gross additions in 1997.
(5) No activity (either sales/purchases of securities or changes in valuation) occurred in these investments during the nine months ended September 30, 1997.
(6) These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either has not yet commenced its planned principal operations or has commenced such operations but has not realized significant revenue from them.
(7) Formerly named Princeton Electronic Billboard, Inc.
(8) Investments in unaffiliated companies consist of investments where Harris & Harris Group, Inc. (the "Company") owns less than 5 percent of the investee company. Investments in non-controlled affiliated companies consist of investments where the Company owns more than 5 percent but less than 25 percent of the investee company. Investments in controlled affiliated companies consist of investments where the Company owns more than 25 percent of the investee company.
(9) Genomica Corporation was cofounded by the Company, Cold Spring Harbor Laboratory and Falcon Technology Partners, LP. Mr. G. Morgan Browne serves on the Board of the Company and is Administrative Director of Cold

Spring Harbor Laboratory.
(10) Formerly named Intaglio, Ltd.
(11) Formerly named PowerVoice Technologies, Inc.
(12) BioSupplyNet, Inc. was cofounded by the Company, Cold Spring Harbor Laboratory and other investors. Mr. G. Morgan Browne serves on the Board of Directors and is Administrative Director of Cold Spring Harbor Laboratory.
(13) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $2,463,964. The gross unrealized appreciation based on the tax cost for these securities is $1,341,037. The gross unrealized depreciation based on the tax cost for these securities is $308,211.
(14) The percentage ownership of each investee disclosed in the Schedule of Investments expresses the potential common equity interest in each such investee. The calculated percentage represents the amount of issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common stock plus common shares reserved for issued and outstanding warrants, convertible securities and stock option grants.

The accompanying notes are an integral part of this schedule.

FOOTNOTE TO SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

1) EQUITY-RELATED SECURITIES

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

3) LONG-TERM FIXED-INCOME SECURITIES
4) SHORT-TERM FIXED-INCOME INVESTMENTS
5) ALL OTHER INVESTMENTS

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

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

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

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

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

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

EQUITY-RELATED SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

LONG-TERM FIXED-INCOME SECURITIES

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

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

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

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

SHORT-TERM FIXED-INCOME INVESTMENTS

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

ALL OTHER INVESTMENTS

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

The reported values of securities for which market quotations are not readily available and for other assets reflect the Investment and Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if the securities had to be sold in an immediate liquidation. 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.

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 and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification in 1998 as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code. As a RIC, the Company must distribute at least 90% of its taxable net investment income and may either distribute or retain its taxable net realized capital gains on investments. There can be no assurance that the Company will qualify as a RIC or that if it does qualify it will continue to qualify.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Securities Transactions. Securities transactions are accounted for on the date the securities are purchased or sold (trade date); dividend income is recorded on the ex-dividend date; and interest income is accrued as earned. Realized gains and losses on investment transactions are determined on the first-in, first-out basis for financial reporting and tax 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 expenses for financial reporting and tax purposes, the most significant difference of which relates to the Company's unrealized appreciation on investments.

Reclassifications. Certain reclassifications have been made to the September 30, 1996 and December 31, 1996 financial statements to conform to the September 30, 1997 presentation.

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 September 30, 1997 and December 31,1996 and the reported amounts of revenues and expenses for the three and nine months ended September 30, 1997 and September 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 toqualified 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.

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 anyoutstanding 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.

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

<TABLE>

<S>	<C> Three Months Ended Sept. 30, 1997	<C> Three Months Ended Sept. 30, 1996	<C> Nine Months Ended Sept. 30, 1997	<C> Nine Months Ended Sept. 30, 1996
Net realized loss:				
As Reported	$ (149,498)	$ (353,969)	$ (539,855)	$ (1,132,804)
Pro Forma	$ (255,264)	$ (454,783)	$ (857,152)	$ (1,435,246)
Net Asset Value per share:				

As Reported	$ 3.05	$ 3.56	$ 3.05	$ 3.56
Pro Forma	$ 3.04	$ 3.55	$ 3.02	$ 3.52

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

	Sept. 30, 1997	Sept. 30, 1996
Stock volatility	0.60	0.61
Risk-free interest rate	6.3 %	6.3 %
Option term in years	7	7
Stock dividend yield	--	--

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

The Company has granted options on 1,130,000 shares and 237,605 warrants through September 30, 1997.

A summary of the status of the Company's 1988 Plan at September 30, 1997 and 1996 and changes during the nine months then ended is presented in the table and narrative below:

	September 30, 1997		September 30, 1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of the period	1,080,000	$4.58	1,050,000	$4.44
Granted	320,000	$3.94	80,000	$6.39
Exercised	-	-	50,000	$1.75
Forfeited	270,000	$5.34	64,000	$5.38
Expired	-	-	-	-
Outstanding at end of period	1,130,000	$4.22	1,016,000	$4.67
Exercisable at end of period	439,000	$3.60	398,000	$3.38
Weighted average fair value of options granted		$2.50		$4.09

The range of exercise prices for the outstanding options as of September 30, 1997:

Options	Exercise Price	Remaining Life (Years)
8,000	$1.1875	0.25
150,000	$1.6250	0.25
50,000	$3.0000	0.25
50,000	$3.7500	0.25
410,000	$5.3750	0.25
2,000	$5.7500	0.25
60,000	$6.1875	0.25
20,000	$7.0000	0.25
80,000	$3.6250	0.25
300,000	$3.8750	0.25

The Company's 1988 Plan will be cancelled as of December 31, 1997, eliminating all stock options. Instead, as of January 1, 1998, the Company will implement an employee profit-sharing plan that provides for profit sharing equal to 20 percent of net after-tax income, with the exception of unrealized gains as of September 30, 1997, on which gains the Company will not pay employee profit-sharing.

As of September 30, 1997, the Company's Chairman held outstanding warrants to purchase 237,605 shares of common stock at a price of $2.0641 per share, expiring in 1999. These warrants were exercised in October 1997.

NOTE 4. EMPLOYEE BENEFITS

As of August 15, 1990, the Company entered into a non-competition, employment and severance contract with its Chairman, Charles E. Harris, pursuant to which he is to receive compensation in the form of salary and other benefits. This contract was amended on June 30, 1992, January 3, 1993, June 30, 1994 and September 25, 1997. The term of the contract expires on December 31, 1999.

Base salary is to be increased annually to reflect inflation and in addition may be increased by such amount as the Compensation Committee of the Board of Directors of the Company deems appropriate. In addition, Mr. Harris would be entitled, under certain circumstances, to receive severance pay under the employment and severance contracts.

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

On June 30, 1994, the Company adopted a plan to provide medical and health coverage for retirees, their spouses and dependents who, at the time of 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 September 30, 1997, the Company had a reserve of $232,415 for the plan.

NOTE 5. INCOME TAXES

Prior to 1998, the Company had not elected tax treatment available to Regulated Investment Companies ("RIC") under Sub-Chapter 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 two years and carry forward such losses 20 years. In 1998, the Company will seek to qualify as a RIC. There can be no assurance that the Company will qualify as a RIC or that if it does qualify that it will continue to qualify.

For the three and nine months ended September 30, 1997 and 1996, the Company's income tax (benefit) provision was allocated as follows:

<TABLE>

<S>	<C> Three Months Ended Sept. 30, 1997	<C> Three Months Ended Sept. 30, 1996	<C> Nine Months Ended Sept. 30, 1997	<C> Nine Months Ended Sept. 30, 1996
Investment operations	$ (497,297)	$ (171,181)	$ (665,644)	$ (524,458)
Realized (loss) gain on investments	(33,268)	(17,947)	243,630	(74,754)
Increase (decrease) in unrealized appreciation on investments	390,502	(135,406)	(1,905,496)	866,385
Total income tax (benefit) provision	$ (140,063)	$ (324,534)	$(2,327,510)	$ 267,173

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

Current -- Federal	$ (387,020)	$ (188,540)	$ (387,020)	$ (600,269)
Deferred -- Federal	246,957	(135,994)	(1,940,490)	867,442

Total income tax (benefit) provision	$ (140,063)	$ (324,534)	$(2,327,510)	$ 267,173

</TABLE>

The Company's deferred tax liability at September 30, 1997 and December 31, 1996 consists of the following:

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

	September 30, 1997	December 31, 1996
Unrealized appreciation on investments	$ 390,502	$ 2,295,998
Medical retirement benefits	(81,345)	(72,320)
Other	(62,200)	(36,231)
Net deferred income tax liability	$ 246,957	$ 2,187,447

</TABLE>

The income tax benefit for the three months and nine months ended September 30, 1997 includes a tax benefit of $88,934 realized as a result of the Company filing for a tax refund.

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 accounting purposes.

NOTE 6. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. Rent expense under this lease was $28,846 and $41,784 for the three months ended September 30, 1997 and 1996, and $101,562 and $119,628 for the nine months ended September 30, 1997 and 1996, respectively. Future minimum lease payments in each of the following years are: 1998 -- $168,768; 1999 -- $176,030; 2000 -- $178,561; 2001 -- $178,561; 2002 -- $178,561; thereafter $101,946. Currently, the Company sublets part of its space to a company in which it has an investment.

In December 1993, the Company and MIT announced the establishment by the Company of the Harris & Harris Group Senior Professorship at MIT. Prior to the arrangement for the establishment of this Professorship, the Company had made gifts of stock in start-up companies to MIT. These gifts, together with the contribution of $700,000 in cash in 1993, which was expensed by the Company in 1993, were used to establish this named chair. The Company contributed to MIT securities with a cost basis of $3,280, $20,000 and $20,000 in 1993, 1994, and 1995 respectively. These contributions will be applied to the MIT Pledge at their market value at the time the shares become publicly traded or otherwise monetized in a commercial transaction and are free from restriction as to sale by MIT. At September 30, 1997, 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.

In January 1997, the Company signed a loan agreement with one of its investee companies for up to $500,000. As of September 30, 1997, the Company had loaned $200,000 to the investee company. In addition, the Company has guaranteed a bonus of up to $40,000 to the key employees of the investee company.

In June 1997, the Company agreed to provide one of its investee companies with a $450,000 revolving line of credit. The purpose of this line of credit, which will be secured by accounts receivable, is to provide for seasonal cash flow. To the extent that this line of credit is utilized, the Company will also receive warrants to purchase common stock.

In September 1997, the Company announced that the Board of Directors had voted to restructure the Company and become taxed as a RIC under Sub-Chapter M of the Internal Revenue Code. The Company will seek to qualify as a RIC in 1998. There can be no assurance that the Company will qualify as a RIC or that if it does qualify that it will continue to qualify.

One of the requirements to qualify as a RIC is for the Company to pay to shareholders dividends, equal to at least the Company's cumulative realized earnings and profits ("E&P") as defined. The Company currently estimates that E&P as of the end of 1997 will be at least $7 million. Accordingly, the

Company intends to pay cash dividends totaling approximately $7 million before year-end 1998.

In October 1997, the Company purchased for $1.1 million a 12 percent Note of NeuroMetrix, Inc., due April 15, 1999, convertible into Preferred Stock that is convertible into Common Stock under certain circumstances at a price no higher than $5.50 per Common Share. If converted at $5.50 per share, Harris & Harris Group would own additional NeuroMetrix Preferred Stock convertible into 200,000 NeuroMetrix Common Shares.

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

Statement of Operations

The Company accounts for its operations under Generally Accepted Accounting Principles for investment companies. On this basis, the principal measure of its financial performance is captioned "Net (decrease) increase in net assets from operations," which is the sum of three elements. The first element is "Net operating gain (loss)," which is the difference between the Company's income from interest, dividends, and fees and its operating expenses, net of applicable income tax benefits. 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 tax provisions (benefits). These two elements are combined in the Company's financial statements and reported as "Net realized gain (loss)." The third element, "Net (decrease) increase in unrealized appreciation on investments," is the net change in the fair value of the Company's investment portfolio, net 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 (decrease) increase in unrealized appreciation on investments" are directly related. When a security is sold to realize a gain (loss), net unrealized appreciation decreases (increases) and net realized gain increases (decreases).

Financial Condition

The Company's total assets and net assets were, respectively, $32,636,379 and $31,853,969 at September 30, 1997, versus $38,555,290 and $35,932,603 at December 31, 1996. Net asset value per share was $3.05 at September 30, 1997, versus $3.44 at December 31, 1996.

The Company's financial condition is dependent on the success of its investments. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth or have no history of operations. At September 30, 1997, 52.8 percent of the Company's $32.6 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was approximately $0.3 million. At December 31, 1996, 48.8 percent of the Company's $39.0 million in total assets consisted of investments at fair value in private businesses, of which net unrealized appreciation was approximately $5.0 million before taxes.

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

<TABLE>

<S>	<C> September 30, 1997	<C> December 31, 1996
Investments, at cost	$ 27,826,300	$ 28,981,093
Unrealized appreciation	1,223,314	6,667,589
Investments, at fair value	$ 29,049,614	$ 35,648,682

The accumulated unrealized appreciation on investments net of deferred taxes is $832,812 at September 30, 1997, versus $4,371,591 at December 31, 1996.

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

The following table is a summary of the cash investments made by the Company in its private placement portfolio during the nine months ended September 30, 1997:

</TABLE>
<TABLE>

<S>	<C>
Follow-on Investments:	Amount
BioSupplyNet, Inc.	$ 200,000
Highline Offshore Advisors, LLC.	500,000
MultiTarget, Inc.	45,585
NBX Corporation	1,190,002
Sub-total	$ 1,935,587
Loans:	
nFX Corporation	$ 200,000
Gel Sciences, Inc.	316,000
Harber Brothers Productions, Inc.	250,000
PureSpeech, Inc.	243,980
Sub-total	$ 1,009,980
Exercise of Warrants:	
NeuroMetrix, Inc.	$ 200,000
Princeton Video Image, Inc.	15,075
Sub-total	$ 215,075
Total	$ 3,160,642

</TABLE>

Results of Operations

Investment Income and Expenses:

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

The Company had interest income from fixed-income securities of $362,330 and $625,434 for the nine months ended September 30, 1997 and 1996, respectively. The decrease is a result of a decline in the balance of the Company's fixed-income portfolio. The Company also received dividends, consulting and administrative fees which totaled $18,369 and $49,146 for the nine months ended September 30, 1997 and 1996, respectively.

Operating expenses were $2,068,654 and $2,230,703 for the nine months ended September 30, 1997 and 1996, respectively. Most of the Company's operating expenses are related to employee and director compensation, office and rent expenses and consulting and professional fees (primarily legal and accounting fees). Operating expenses decreased as a result of the Company's reduction in administration and operations expense and professional fees.

Net operating losses before taxes were $1,657,955 and $1,518,432 for the nine months ended September 30, 1997 and 1996, 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 Portfolio Securities:

During the nine months ended September 30, 1997, the Company sold various public securities realizing a net pre-tax gain of $696,086, of which a net gain of $1,730,910 had been recognized as unrealized in prior years, therefore, it decreased unrealized appreciation on investments. During the nine months ended September 30, 1996, the Company sold various public securities realizing a net pre-tax loss of $213,584.

During the three months ended September 30, 1997, the Company sold various public securities realizing a net pre-tax loss of $95,052, of which a net gain of $288,770 had been recognized as unrealized in prior quarters, therefore, it decreased unrealized appreciation on investments. During the three months ended September 30, 1996, the Company sold various public securities realizing a net pre-tax loss of $51,277.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized appreciation on investments before taxes decreased, during the nine months ended September 30, 1997, by $5,444,275, from $6,667,589 to $1,223,314, owing primarily to decreased valuations of Gel Sciences, Inc., Harber Brothers Productions, Inc., nFX Corporation, Princeton Video Image, Inc. and PureSpeech, Inc., offset by the increased valuations of NBX Corporation and Nanophase Technologies, Inc.

Net unrealized appreciation on investments before taxes increased, during the nine months ended September 30, 1996, by $2,475,384, from $2,102,593 to $4,577,977, owing primarily to increased valuations for Nanophase Technologies Corporation, Gel Sciences, Inc. Princeton Video Image, Inc., PHZ Capital Partners Limited Partnership, and Alliance Pharmaceutical Corporation, offset by the decreased valuations of Micracor Inc., Sonex International Corporation, Dynecology, Inc. and Cordex Petroleums, Inc.

Net unrealized appreciation on investments before taxes increased, during the three months ended September 30, 1997, by $1,149,960, from $73,354 to $1,223,314, owing primarily to increased valuations of NBX Corporation, Fuisz Technologies and Zonagen, Inc., offset by decreased valuation of nFX Corporation.

Net unrealized appreciation on investments before taxes decreased, during the three months ended September 30, 1996, by $424,708, from $5,002,685 to $4,577,977, owing primarily to decreased valuations of Micracor Inc., Dynecology, Inc. and Cordex Petroleums, Inc., offset slightly by an increase in the valuation of Alliance Pharmaceutical Corporation and Gel Sciences, Inc.

Liquidity and Capital Resources

The Company reported total cash, receivables and marketable securities (the primary measure of liquidity) at September 30, 1997 of $15,161,821, versus $19,296,591 at December 31, 1996. Management believes that its cash, receivables and marketable securities provide the Company with sufficient liquidity for its operations.

As part of the Company's restructuring to be qualified as a Regulated Investment Company under Sub-Chapter M of the Internal Revenue Code, the Company is required to distribute to shareholders all its cumulative realized E&P before year end 1998 as a dividend. The Company currently estimates that E&P as of the end of 1997 may be at least $7,000,000.

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

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
None

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
(a) See Exhibit Index for Exhibits to the Form 10-Q
(b) None

EXHIBIT INDEX

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

27. Financial Data Schedule

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: November 14, 1997

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<PER-SHARE-NAV-BEGIN>	3.44	2.99
<PER-SHARE-NII>	0	0
<PER-SHARE-GAIN-APPREC>	0	0
<PER-SHARE-DIVIDEND>	0	0
<PER-SHARE-DISTRIBUTIONS>	0	0
<RETURNS-OF-CAPITAL>	0	0
<PER-SHARE-NAV-END>	3.05	3.05
<EXPENSE-RATIO>	0	0
<AVG-DEBT-OUTSTANDING>	0	0
<AVG-DEBT-PER-SHARE>	0	0

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