HARRIS & HARRIS GROUP INC /NY/
Form 497
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Filed Pursuant to Rule 497(e)
Registration No. 333-138996

PROSPECTUS SUPPLEMENT
(To Prospectus dated May 11, 2007)

1,300,000

Common Stock

Pursuant to this Prospectus Supplement and the accompanying Prospectus, we are offering 1,300,000 shares of our common stock, par value $0.01 ("Common Stock"). We are offering the Common Stock on a best efforts basis primarily to institutional investors. We have retained Global Crown Capital, LLC to act as our exclusive placement agent in connection with this offering. See "Plan of Distribution" beginning on page S-20 of this Prospectus Supplement for more information regarding this arrangement.

Our Common Stock is listed on the Nasdaq Global Market under the symbol "TINY." On June 15, 2007, the last reported sale price of our Common Stock on the Nasdaq Global Market was $11.95 per share.

This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy the shares offered hereby in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation.

Investing in our Common Stock involves risks. See "Risk Factor" on page S-3 of this Prospectus Supplement and "Risk Factors" on page 11 of the accompanying Prospectus.

	Per Share		Total	
Public offering price	$	10.79[(1)]	$	14,027,000
Placement agent's fees	$	0.65	$	841,620
Proceeds, before expenses, to the Company	$	10.14	$	13,185,380

(1) Determined by the 10-day volume-weighted average price (VWAP) minus five percent.

We estimate the total expenses of this offering, excluding the placement agent's fee, will be approximately $124,500. Because there is no minimum offering amount required as a condition to closing in this offering, the actual public offering amount, placement agent's fee and net proceeds to us, if any, in this offering are not presently determinable and may be substantially less than the maximum offering amounts set forth above. The placement agent is not required to sell a minimum number or dollar amount of shares but will use its best efforts to sell the shares offered. We expect that delivery of the Common Stock being offered pursuant to this Prospectus Supplement will be made to purchasers on or about June 20, 2007. Certain purchaser funds will be deposited into an escrow account and held until jointly released by us and the placement agent on the date the shares are to be delivered to the purchasers. All funds received will be held in a non-interest bearing account.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus Supplement is truthful or complete. Any

representation to the contrary is a criminal offense.

The date of this Prospectus Supplement is June 15, 2007.

Global Crown Capital, LLC
Placement Agent

This Prospectus Supplement dated June 15, 2007, and the accompanying Prospectus dated May 11, 2007, are part of a registration statement on Form N-2 (File No. 333-138996) we filed with the Securities and Exchange Commission using a "shelf" registration process. Under this "shelf" registration process, we may from time to time sell any combination of securities described in the accompanying prospectus in one or more offerings up to a total of 4,000,000 shares.

These documents contain important information you should consider when making your investment decision. The accompanying Prospectus provides you with a general description of the securities we may offer. This Prospectus Supplement contains information about the shares issued in this offering. This Prospectus Supplement may add, update or change information in the accompanying Prospectus. You should rely only on the information provided in this Prospectus Supplement, the accompanying Prospectus or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus. We have not authorized anyone to provide you with any other information. The information contained in the Prospectus and the Prospectus Supplement is accurate only as of the date of the Prospectus and the Prospectus Supplement, regardless of the time of delivery of this Prospectus Supplement or of any sale of the shares.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

THE OFFERING

Common Stock offered by us pursuant to this supplement	Up to 1,300,000
Shares outstanding after the offering	Up to 23,106,896[1]
Use of proceeds	We estimate that our net proceeds from this offering after expenses will be approximately $13,060,880. We intend to use these net proceeds as set forth in "Use of Proceeds" below.
Nasdaq Global Market Symbol	TINY

(1) The number of shares of our Common Stock to be outstanding excludes:

- options to purchase approximately 2,907,732 shares of Common Stock at an exercise price of $10.11 outstanding as of June 15, 2007; and

- approximately 192,986 additional shares of Common Stock reserved for issuance under our equity incentive plans as of June 15, 2007.

BUSINESS

We are a venture capital company specializing in tiny technology. We were incorporated as a New York corporation in 1981. In 1995, we elected to be regulated as a business development company under the 1940 Act. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Although our portfolio includes insignificant non-tiny technology investments made prior to 2001, we now make our initial investments exclusively in tiny technology companies. By making these investments, we seek to provide our shareholders with a specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded business development company making initial venture capital investments exclusively in tiny technology.

Nanotechnology, microsystems and microelectromechanical systems (MEMS), are often referred to collectively as "tiny technology," or "small technology," by scientists and others in this field. Nanotechnology in particular is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in widespread commercial use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology, and particularly nanotechnology, has significant scientific, engineering, regulatory and commercialization risks.

Tiny technology, particularly nanotechnology, is distinguished by its applicability to a wide range of industries. As a venture capital company, we make it possible, through the ownership of our shares, for our shareholders to participate in this emerging field at an earlier stage than would typically be possible for them. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate, as we believe it will likely become increasingly difficult to create new foundational intellectual property in nanotechnology.

TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our Common Stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds for the 1,300,000 shares of Common Stock shares pursuant to this Prospectus Supplement and the accompanying Prospectus, assuming that we incur the estimated offering expenses. The price per share used in this calculation was the offering price of $10.79.

Shareholder Transaction Expenses	
Sales Load[(1)] (as a percentage of offering price)	6.00%
Offering Expenses (as a percentage of offering price)	0.89%
Annual Expenses (as a percentage of net assets attributable to Common Stock)	
Management Fees[(2)]	N/A
Other Expenses[(3)]	
Salaries and Benefits[(4)]	6.92%
Administration and Operations[(5)]	1.76%
Professional Fees	0.56%
Total Annual Expenses[(6)]	9.24%

Example

The following examples illustrate the dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Common Stock. These amounts are based upon payment by us of expenses at levels set forth in the above table, including the non-cash, stock-based compensation expenses.

On the basis of the foregoing, including the non-cash, stock-based compensation expense, you would pay the following expenses on a $10,000 investment, assuming a five percent annual return:*

1 Year	3 Years	5 Years	10 Years
$1,532	$3,112	$4,560	$7,676

* This example includes non-cash, stock-based compensation. Excluding the non-cash, stock-based compensation, you would pay expenses of $1,166 in one year, $2,118 in three years, $3,068 in five years and $5,431 in 10 years, on a $10,000 investment, assuming a five percent return.

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our Common Stock will bear directly or indirectly. The assumed five percent annual return is not a prediction of, and does not represent, the projected or actual performance of our Common Stock. **The above example should not be considered a representation of future expenses, and actual expenses and annual rates of return may be more or less than those assumed for purposes of the example.**

(1) This represents the placement fee of six percent (6%) of the of the gross proceeds of this offering.

(2) The Company has no external management fees, as it is internally managed.

(3) "Other Expenses" are based on estimated amounts for the current fiscal year.

(4)

"Salaries and Benefits" includes non-cash stock-based compensation expense of $5,228,419. The Company accounts for stock-based compensation expense pursuant to SFAS No. 123(R) "Share-Based Payment," which requires that we determine the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, and record these amounts as an expense in the Statement of Operations over the vesting period with a corresponding increase to our additional paid-in capital. There is no effect on net asset value from stock-based compensation expense at the time of grant. If options are exercised, net asset value per share will be decreased if the net asset value per share at the time of exercise is higher than the exercise price and net asset value per share will be increased if the net asset value per share at the time of exercise is lower than the exercise price. Excluding the non-cash, stock-based compensation expense, "Salaries and benefits" total $3,592,630 or 2.80 percent of net assets attributable to Common Stock.

(5) "Administration and Operations" includes expenses incurred for administration, operations, rent, directors' fees and expenses, depreciation and custodian fees.

(6) "Total Annual Expenses" includes non-cash compensation expense of $5,228,419. See Footnote (4) above. Cash-based total annual expenses as a percentage of net assets attributable to Common Stock are 5.13 percent.

RISK FACTOR

On June 14, 2007, our net asset value per share was $5.28. Given that we are selling up to 1,300,000 shares of Common Stock, the net asset value per share after giving effect to the offering will be approximately $5.59, less than the price you paid in the offering. For additional risk factors, please see "Risk Factors" on page 11 in the accompanying prospectus.

FORWARD-LOOKING INFORMATION

This Prospectus Supplement may contain "forward-looking statements" based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may," "might," "could," "continue" and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in this Prospectus Supplement. The forward-looking statements made in this Prospectus Supplement relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

You should understand that under Sections 27A(b)(2)(B) and (D) of the Securities Act of 1933 and Sections 21E(b)(2)(B) and (D) of the Securities Exchange Act of 1934, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 may not as a technical matter apply to statements made in connection with this offering.

USE OF PROCEEDS

We estimate the total net proceeds of the offering to be approximately $13,060,880.

We expect to invest or reserve for potential follow-on investment the net proceeds of any offering within two years from the completion of such offering. The net proceeds of this offering invested after two years will only be used for follow-on investments. Reserves for follow-on investments in any particular initial investment may be no more than the greater of twice the investment to-date or five times the initial investment in the case of seed-stage investments, though we may invest more than the amount reserved for this purpose in any particular portfolio holding. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of our Common Stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government or a government-owned corporation, which may well yield less than our operating expense ratio. We may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. Our portfolio companies rarely pay us dividends or interest, and we do not generate enough income from fixed income investments to meet all of our operating expenses. If we pay operating expenses from the proceeds, it will reduce the net proceeds of the offering that we will have available for investment.

CAPITALIZATION

We are authorized to issue 45,000,000 shares of Common Stock, par value $0.01 per share, and 2,000,000 shares of preferred stock, par value $0.10 per share. Each share within a particular class or series thereof has equal voting, dividend, distribution and liquidation rights. When issued, in accordance with the terms thereof, shares of Common Stock will be fully paid and non-assessable. Shares of Common Stock are not redeemable and have no preemptive, conversion, or cumulative voting rights.

The following table shows the number of shares of (i) capital stock authorized, (ii) the amount held by us or for our own account, and (iii) capital stock outstanding for each class of our authorized securities as of June 13, 2007.

Title of Class	Amount Authorized	Amount Held by Company or for its Own Account	Amount Outstanding
Common Stock	45,000,000	1,828,740	21,806,896(1)
Preferred Stock	2,000,000	0	0

(1) The number of shares of our Common Stock to be outstanding excludes:

- options to purchase approximately 2,907,732 shares of Common Stock at an exercise price of $10.11 outstanding as of June 15, 2007; and

- approximately 192,986 additional shares of Common Stock reserved for issuance under our equity incentive plans as of June 15, 2007.

PRICE RANGE OF COMMON STOCK

Our Common Stock is traded on the Nasdaq Global Market under the symbol "TINY."

The following table sets forth for the quarters indicated, the high and low sale prices on the Nasdaq Global Market per share of our Common Stock and the net asset value and the premium or discount from net asset value per share at which the shares of Common Stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

Quarter Ended	Market Price High	Market Price Low	Net Asset Value ("NAV") Per Share at End of Period	Premium or Discount as a % of NAV High	Premium or Discount as a % of NAV Low
March 31, 2005	16.80	11.30	4.20	300.0%	169.0%
June 30, 2005	13.38	10.01	4.61	190.2	117.1
September 30, 2005	13.85	10.70	5.94	133.2	80.1
December 31, 2005	14.95	10.15	5.68	163.2	78.7
March 31, 2006	16.10	12.75	5.60	187.5	127.7
June 30, 2006	14.26	9.57	5.54	157.4	72.7
September 30, 2006	12.99	9.38	5.54	134.5	69.3
December 31, 2006	15.16	11.80	5.42	179.7	117.7

March 31, 2007	13.58	11.00	5.27	157.7	108.7
Second Quarter through June 15, 2007	14.32	11.01	5.28	171.2	108.5

Historically, the shares of our Common Stock have traded at times at a discount and at other times at a premium to net asset value. Since 2003, our shares of Common Stock have traded at a premium to net asset value. The last reported price for our Common Stock on June 15, 2007 was $11.95 per share. As of June 14, 2007, we had approximately 136 shareholders of record.

As of June 14, 2007, our net asset value per share was $5.28.

RECENT DEVELOPMENTS

On April 23, 2007, Michael A. Janse, age 38, joined us as a Managing Director and Executive Vice President. He will be based in our Palo Alto, California, office. From March 2001 to December 2006, Mr. Janse was an Associate and since January 2007, had been a Principal with Arch Venture Partners, a Chicago based venture capital firm. He was graduated from the University of Chicago Graduate School of Business (M.B.A., Finance and Accounting), and Brigham Young University (B.S., Chemical Engineering).

On May 8, Daniel V. Leff, Managing Director and Executive Vice President, informed Harris & Harris Group, Inc., of his intention to resign from us in order to pursue other opportunities in venture capital. Mr. Leff will remain employed by us and keep his office in Los Angeles, California, through September 30, 2007, to ensure an orderly transition of his current roles and responsibilities

On May 11, 2007, we made two follow-on investments totaling $507,042 in two privately held tiny technology portfolio companies.

In May 2007, we issued 442,415 shares of our Common Stock upon the exercise of employee stock options. We received proceeds of $4,472,816.

In June 2007, we issued 23,452 shares of our Common Stock upon the exercise of employee stock options. We received proceeds of $237,100.

On June 6, 2007, we made a $2,000,000 initial investment in a privately held tiny technology company.

SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

Quarterly financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the three months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ended March 31, 2007. The information below should be read in conjunction with the Consolidated Financial Statements and Supplementary Data and the notes thereto. Financial information as of and for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, has been derived from our financial statements that were audited by PricewaterhouseCoopers LLP. These historical results are not necessarily indicative of the results to be expected in the future.

SELECTED QUARTERLY DATA (UNAUDITED)

		2007
		1st Quarter
Total investment income	$	652,498
Net operating loss	$	(2,677,118)
Net increase (decrease) in net assets resulting from operations	$	(6,390,160)
Net (decrease) increase in net assets resulting from operations per average outstanding share	$	(0.30)

2006

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment income	$ 804,862	$ 785,265	$ 719,619	$ 719,015
Net operating loss	$ (767,743)	$ (693,887)	$ (2,988,790)	$ (3,162,515)
Net increase (decrease) in net assets resulting from operations	$ (1,653,990)	$ (1,282,997)	$ (2,588,092)	$ (6,248,033)
Net (decrease) increase in net assets resulting from operations per average outstanding share	$ (0.08)	$ (0.06)	$ (0.12)	$ (0.31)

SELECTED QUARTERLY DATA (UNAUDITED)
(continued)

	2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment income	$ 260,108	$ 158,717	$ 315,374	$ 801,662
Net operating loss	$ (745,590)	$ (3,302,094)	$ (3,273,797)	$ 1,851,274
Net increase (decrease) in net assets resulting from operations	$ (2,233,447)	$ 7,001,847	$ 7,336,923	$ (5,388,947)
Net (decrease) increase in net assets resulting from operations per average outstanding share	$ (0.13)	$ 0.41	$ 0.40	$ (0.26)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with the Company's unaudited March 31, 2007 Consolidated Financial Statements and the Company's audited 2006 Consolidated Financial Statements and notes thereto.

In 1994, we made our first tiny technology investment. From August 2001 through March 31, 2007, all 32 of our initial investments have been in tiny technology. From August 2001 through March 31, 2007, we have invested a total (before any subsequent write-ups, write-downs or dispositions) of $70,897,446 in tiny technology.

The following is a summary of our initial and follow-on investments in tiny technology from 2001 to the present. We consider a "round led" to be a round where we were the new investor or the leader of a set of new investors in an investee company. Typically, but not always, the lead investor negotiates the price and terms of a deal with the investee company.

	2001	2002	2003	2004	2005	2006	2007
Total Incremental Investments	$ 489,999	$ 6,240,118	$ 3,812,600	$ 14,837,846	$ 16,251,339	$ 24,408,187	$ 4,857,357
No. of New Investments	1	7	5	8	4	6	1
No. of Follow-On Investment Rounds	0	1	5	21	13	14	6
No. of Rounds Led	0	1	0	2	0	7	1
Average Dollar Amount - Initial	$ 489,999	$ 784,303	$ 437,156	$ 911,625	$ 1,575,000	$ 2,383,424	$ 1,147,826
Average Dollar Amount - Follow-On	N/A	$ 750,000	$ 325,364	$ 359,278	$ 765,488	$ 721,974	$ 618,255

We currently have 28 tiny technology companies in our portfolio. At March 31, 2007, from first dollar in, the average and median holding periods for these 28 venture capital investments were 2.92 years and 2.37 years, respectively.

We value our private venture capital investments each quarter as determined in good faith by our Valuation Committee, a committee of all of our independent directors, within guidelines established by our Board of Directors in accordance with the 1940 Act. (See "Footnote to Consolidated Schedule of Investments" contained in "Consolidated Financial Statements.")

In the years 2001, 2002, 2003, 2004, 2005 and 2006, the Company recorded the following gross write-downs in privately held securities as a percentage of net assets at the beginning of the year:

	2001	2002	2003	2004	2005	2006	YTD 2007
Net Asset Value, Beginning of Year	$ 31,833,475	$ 24,334,770	$ 27,256,046	$ 40,682,738	$ 74,744,799	$ 117,987,742	$ 113,930,303
Gross Write-Downs During Year	$ (2,532,730)	$ (5,400,005)	$ (1,256,102)	$ (5,711,229)	$ (3,450,236)	$ (4,211,323)	$ (4,043,077)
Gross Write-Downs as a Percentage of Net Asset Value	-7.96%	-22.19%	-4.61%	-14.04%	-4.62%	-3.57%	-3.55%

The following is a history of the changes in our per share NAV, by quarter:

	31-Dec-00	31-Mar-01	30-June-01	30-Sep-01	31-Dec-01
NAV per Share	$ 3.51	$ 3.09	$ 3.29	$ 2.92	$ 2.75
$ Change		(0.42)	0.20	(0.37)	(0.17)
% Change		-11.97%	6.47%	-11.25%	-5.82%

	31-Mar-02	30-June-02	30-Sep-02[1]	31-Dec-02
NAV per Share	$ 2.63	$ 2.68	$ 2.61	$ 2.37
$ Change	(0.12)	0.05	(0.07)	(0.24)
% Change	-4.36%	1.90%	-2.61%	-9.20%

	31-Mar-03	30-June-03	30-Sep-03	31-Dec-03[1]
NAV per Share	$ 2.26	$ 2.22	$ 2.11	$ 2.95
$ Change	(0.11)	(0.04)	(0.11)	0.84
% Change	-4.64%	-1.77%	-4.95%	39.81%

	31-Mar-04	30-June-04	30-Sep-04[1]	31-Dec-04
NAV per Share	$ 3.01	$ 2.85	$ 4.44	$ 4.33
$ Change	0.06	(0.16)	1.59	(0.11)
% Change	2.03%	-5.32%	55.79%	-2.48%

	31-Mar-05	30-June-05	30-Sep-05(1)	31-Dec-05
NAV per Share	$ 4.20	$ 4.61	$ 5.94	$ 5.68
$ Change	(0.13)	0.41	1.33	(0.26)
% Change	-3.00%	9.76%	28.85%	-4.38%

	31-Mar-06	30-June-06	30-Sep-06	31-Dec-06
NAV per Share	$ 5.60	$ 5.54	$ 5.54	$ 5.42
$ Change	(0.08)	(0.06)	0.00	(0.12)
% Change	-1.41%	-1.07%	0.00%	-2.17%

	31-Mar-07
NAV per Share	$ 5.27
$ Change	(0.15)
% Change	-2.77%

[1] The Company completed issuances for new shares of our common stock on September 14, 2005, July 7, 2004, December 24, 2003 and July 8, 2002.

We have discretion in the investment of our capital. However, we invest primarily in illiquid equity securities of private companies. Generally, these investments take the form of preferred stock, are subject to restrictions on resale and have no established trading market. Our principal objective is to achieve long-term capital appreciation. Therefore, a significant portion of our investment portfolio provides little or no income in the form of dividends or interest. We earn interest income from fixed-income securities, including U.S. government and agency securities. The amount of interest income we earn varies with the average balance of our fixed-income portfolio and the average yield on this portfolio. Interest income is secondary to capital gains and losses in our results of operations.

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

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

Net Realized Income / (Loss) on Investments - the difference between the net proceeds of sales of portfolio securities and their stated cost, plus income from interests in limited liability companies.

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

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

Results of Operations

Three months ended March 31, 2007, as compared to the three months ended March 31, 2006

In the three months ended March 31, 2007, and March 31, 2006, we had net decreases in net assets resulting from operations of $6,390,160 and $1,653,990, respectively.

Investment Income and Expenses:

We had net operating losses of $2,667,118 and $767,743 for the three months ended March 31, 2007, and March 31, 2006, respectively. The variation in these results is primarily owing to the changes in investment income and operating expenses. During the three months ended March 31, 2007, and 2006, total investment income was $652,498 and $804,862, respectively. During the three months ended March 31, 2007, and 2006, total operating expenses were $3,319,616 and $1,572,605, respectively.

During the three months ended March 31, 2007, as compared with the same period in 2006, investment income decreased owing to a decrease in our average holdings of U.S. government and agency securities. During the three months ended March 31, 2007, our average holdings of such securities were $60,084,828, as compared with $76,957,955 during the three months ended March 31, 2006.

The increase in operating expenses for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, was primarily owing to increases in salaries, benefits and stock-based compensation expense, and directors' fees and expenses, partially offset by a decrease in professional fees. Salaries, benefits and stock-based compensation expense increased by $1,748,405, or 222.34 percent, through March 31, 2007, as compared to March 31, 2006, primarily as a result of non-cash expense of $1,690,181 associated with the Stock Plan. While the non-cash stock-based compensation expense for the Stock Plan increased our operating expenses by $1,690,181, this increase was offset by a corresponding increase to our additional paid-in capital, resulting in no net impact to our net asset value. The non-cash stock-based compensation expense and corresponding increase to our additional paid-in capital may increase in future quarters. Directors' fees and expenses increased by $55,294, or 64.4 percent, primarily as a result of additional meetings held in the period ended March 31, 2007, as well as an increase in the monthly retainers paid to Committee Chairs and the Lead Independent Director, as compared with the period ended March 31, 2006. Professional fees decreased by $107,692, or 37.15 percent, for the three months ended March 31, 2007, as compared with the same period in 2006, primarily as a result of a reduction of some legal and accounting fees.

Realized Income and Losses from Investments:

During the three months ended March 31, 2007, we realized net losses on investments of $674, as compared with realized net gains on investments of $11,953 during the three months ended March 31, 2006.

During the three months ended March 31, 2007, we realized net losses of $674, consisting primarily of income from our investment in AlphaSimplex Group, LLC, offset by losses in Exponential Business Development Company.

During the three months ended March 31, 2006, we realized net gains of $11,953, consisting primarily of proceeds received from the liquidation of Optiva, Inc., offset by losses realized on our investment in AlphaSimplex Group, LLC.

Net Unrealized Appreciation and Depreciation of Portfolio Securities:

During the three months ended March 31, 2007, net unrealized depreciation on total investments increased by $3,637,463, or 40.4 percent, from net unrealized depreciation of $9,007,420 at December 31, 2006, to net unrealized depreciation of $12,644,883 at March 31, 2007. Net unrealized depreciation on total investments increased by $888,594, or 19.4 percent, during the three months ended March 31, 2006, from $4,588,550 at December 31, 2005, to $5,477,145 at March 31, 2006.

During the three months ended March 31, 2007, net unrealized depreciation on our venture capital investments increased by $3,833,052, from $8,450,969 to $12,284,021, owing primarily to decreases in the valuations of our investments in Chlorogen, Inc., of $1,370,699, Evolved Nanomaterial Sciences, Inc., of $1,228,281, Nanomix, Inc., of $459,772, NanoOpto Corporation of $892,409 and Questech Corporation of $91,916, and an increase in the valuation of our investment in Polatis, Inc., of $190,680. We also had an increase owing to foreign currency translation of $18,156 on our investment in D-Wave Systems, Inc. Unrealized depreciation on our U.S. government and agency securities portfolio decreased from $556,451 at December 31, 2006, to $360,862 at March 31, 2007.

During the three months ended March 31, 2006, net unrealized depreciation on our venture capital investments increased by $191,545, from $4,519,009 to $4,710,554, owing primarily to a decrease in the valuation of our investment in Zia Laser, Inc. Unrealized depreciation on our U.S. government and agency securities portfolio increased from $69,541 at December 31, 2005, to $766,591 at March 31, 2006.

Years Ended December 31, 2006, 2005, and 2004

During the three years ended December 31, 2006, 2005, and 2004, we had net (decreases) increases in net assets resulting from operations of $(11,773,112), $6,716,376 and ($2,066,114), respectively.

Investment Income and Expenses:

During the three years ended December 31, 2006, 2005, and 2004, we had net operating losses of $7,612,935, $5,465,761 and $3,408,779, respectively. The variation in these results is primarily owing to increases in investment income offset by increases in operating expenses, including non-cash expense of $5,038,956 in 2006 associated with the granting of stock options. During the three years ended December 31, 2006, 2005 and 2004, total investment income was $3,028,761, $1,540,862 and $637,562, respectively. During the three years ended December 31, 2006, 2005 and 2004, total operating expenses were $10,641,696, $7,006,623 and $4,046,341, respectively.

During 2006, investment income increased owing to an increase in our average holdings of U.S. government and agency securities, as our average holdings increased from $51,120,727 at December 31, 2005, to $67,277,409 at December 31, 2006, and as a result of an increase in interest rates during the year. During 2005, investment income increased owing to an increase in our income on U.S. government and agency securities, as our holdings increased from $44,622,722 at December 31, 2004, to $96,250,864 at December 31, 2005, and as a result of an increase in interest rates during the year.

The increase in operating expenses for the year ended December 31, 2006, was primarily owing to increases in salaries, benefits and stock-based compensation expense, and directors' fees and expenses, partially offset by decreases in administrative and operations expenses, profit-sharing expense and professional fees. Salaries, benefits and stock-based compensation expense increased by $5,474,243, or 222.6 percent, for the year ended December 31, 2006, as compared with December 31, 2005, primarily as a result of non-cash expense of $5,038,956 associated with the Harris & Harris Group, Inc. 2006 Equity Incentive Plan (the "Stock Plan") adopted during the second quarter of 2006, and secondarily as a result of an increase in the number of full-time employees. The increase in salaries, benefits and stock-based compensation expense reflects expenses associated with ten full-time employees and one part-time employee during the year ended December 31, 2006, as compared with an average of nine full-time employees during the year ended December 31, 2005. Salaries, benefits and stock-based compensation include $5,038,956 of non-cash expense associated with the Stock Plan, versus no such charge in 2005. Directors' fees and expenses increased by $31,876, or 10.3 percent, as a result of additional meetings held in 2006 related to the adoption of the Stock Plan. Administrative and operations expense decreased by $69,274, or 5.3 percent, primarily as a result of a decrease in our directors' and officers' liability insurance expense and decreases in the cost of proxy-related expenses. Profit-sharing expense for the year ended December 31, 2006, was $50,875, as compared with $1,796,264 for December 31, 2005, owing to the termination of the profit-sharing plan effective May 4, 2006. We recorded $50,875 of profit-sharing expense toward the remainder of the 2005 profit-sharing payment in the year ended December 31, 2006, because of updated estimates of our ultimate tax liability for 2005. Professional fees decreased by $92,234, or 11.1 percent, for the year ended December 31, 2006, as compared with December 31, 2005. Professional fees were lower for the year ended December 31, 2006, as compared with December 31, 2005, primarily as a result of the elimination of consulting costs incurred for a temporary Senior Controller in 2005 and the reduction of some of our Sarbanes-Oxley-related compliance costs incurred in 2005.

The increase in operating expenses during 2005 was primarily owing to increases in the profit-sharing provision, salaries and benefits, professional fees, administration and operations, rent expense and Directors' fees and expenses. Profit-sharing expense for 2005 was $1,796,264, an increase of $1,484,670 as compared with 2004. Profit-sharing expense increased primarily as a result of the gains realized on the sale of NeuroMetrix, Inc., offset by the taxes payable by the Company on the deemed dividend and taxes payable on Built-In Gains. The profit-sharing expense is also impacted by the Company's decision to retain its net realized long-term capital gains for reinvestment for growth, rather than distribute them as a cash dividend. When the Company chooses to retain its net realized long-term capital gains, it declares a deemed dividend and pays taxes on behalf of shareholders. Conversely, when the Company distributes its net realized long-term capital gains as a cash dividend, the shareholders pay all of the taxes. The taxes payable by the Company on behalf of shareholders reduce the amount of profit against which the profit-sharing payable to employees is calculated. Had the Company chosen to distribute its net realized long-term capital gains as a cash dividend, the provision for employee profit sharing would have been $3,420,737 for 2005, rather than the actual provision for employee profit sharing of $1,796,264 for 2005.

For the year ended December 31, 2005, as compared with 2004, salaries and benefits increased by $530,945, or 27.5 percent, primarily as a result of the addition of three employees. Professional fees increased by $162,751, or 24.4 percent, reflecting in part the expenses associated with ongoing compliance with the Sarbanes-Oxley Act of 2002. Administration and operations increased by $600,824, or 83.6 percent, primarily as the result of increases in travel expenses associated with additional investments in portfolio companies, increases in expenses related to the preparation and distribution of the annual and quarterly reports and proxy statement owing to the increased number of shareholders, and an increase in the premium expense for director and officer liability insurance. The premium expense for directors and officers liability insurance increased by $339,810 to $512,038 in 2005, and the premium expense for 2006 is estimated to be $514,650. Rent expense increased by $60,148 or 39.7 percent, owing primarily to the leasing of additional office space in California and New York. Directors' fees and expenses in 2005 increased by $99,664 or 47.6 percent as a result of an increase in the fees paid to the directors for monthly retainer and meeting attendance.

Realized Income and Losses from Investments:

During the years ended December 31, 2006, 2005 and 2004, we had net realized income from investments of $258,693, $14,208,789 and $858,503, respectively. The variation in these results is primarily owing to variations in gross realized income from investments and income taxes in each of the three years. For the years ended December 31, 2006, 2005 and 2004, realized income from investments, before taxes, was $31,338, $23,862,037 and $813,994, respectively. Income tax (benefit) expense for the years ended December 31, 2006, 2005 and 2004 was $(227,355), $9,653,248 and ($44,509).

During the year ended December 31, 2006, we realized net gains of $31,338, consisting primarily of proceeds received from the liquidation of Optiva, Inc., proceeds received from Exponential Business Development, and net losses realized on our investment in AlphaSimplex Group, LLC. During 2005, we deemed the securities we held in Optiva, Inc., worthless and recorded the proceeds received and due to us on the liquidation of our bridge notes, realizing a loss of $1,619,245. At December 31, 2005, we recorded a $75,000 receivable for estimated proceeds from the final payment on the Optiva, Inc., bridge notes. During the first quarter of 2006, we received payment of $95,688 from these bridge notes, resulting in the realized gain of $20,688 on Optiva, Inc. During the year ended December 31, 2006, we realized tax benefits of $227, 355 for 2005 taxes that have been refunded.

During the year ended December 31, 2005, our realized income from investments before taxes of $23,862,037 consisted primarily of a realized gain of $30,179,762 from the sale of our investment in NeuroMetrix, Inc., offset by realized losses of $1,358,286, $2,093,968, $1,091,209 and $1,619,245, from the sale of our shares in Agile Materials & Technologies, Inc., Experion Systems, Inc., Nanotechnologies, Inc., and Optiva, Inc., respectively. Realized losses on U.S. government and agency securities totaled $422,383 for 2005. For the year ended December 31, 2005, our income tax expense on realized gains was $9,653,248, which includes $8,122,367 of taxes payable by the Company on behalf of shareholders in connection with the deemed dividend and $1,364,470 of taxes on Built-In Gains.

During the year ended December 31, 2004, our realized income from investments before taxes of $813,994 consisted primarily of a realized gain of $1,681,259 from the sale of our investment in NanoGram Devices Corporation, offset by a realized loss of $915,108 from the sale of our shares of Series D Convertible Preferred Stock in NeoPhotonics Corporation. For the year ended December 31, 2004, our income tax benefit on realized gains and losses was $44,509, which related primarily to taxes owed to Harris & Harris Enterprises.

Net Unrealized Appreciation and Depreciation of Portfolio Securities:

During the year ended December 31, 2006, net unrealized depreciation on total investments increased by $4,418,870. During the year ended December 31, 2005, net unrealized depreciation on total investments increased by $2,026,652. During the year ended December 31, 2004, net unrealized depreciation on total investments decreased by $484,162.

The net increase in unrealized depreciation on our venture capital investments in 2006 was owing primarily to decreases in the valuation of our investments in Nanomix, Inc., of $1,710,000, NanoOpto Corporation of $1,211,259, NeoPhotonics Corporation of $254,238, Polatis, Inc., of $145,228, SiOnyx, Inc., of $679,950 and Zia Laser, Inc., of $172,500, and an increase in the valuations of our investments in Crystal IS of $19,735 and Questech Corporation of $259,628. We also had a decrease, owing to foreign currency translation, of $34,103 on our investment in D-Wave Systems, Inc. Unrealized depreciation on our U.S. government and agency securities portfolio increased from $69,541 at December 31, 2005, to $556,451 at December 31, 2006.

The net increase in unrealized depreciation on our venture capital investments in 2005 was the result of the appreciation in value of $19,790,298 on investments held, offset by depreciation of $23,181,420 related to investments sold. The change in unrealized depreciation on investments held is owing to appreciation in our investment in NeuroMetrix, Inc., prior to the sale of our interest in it as well as increases in the valuations of NanoGram Corporation, Nanosys, Inc., and Nantero, Inc., of $313,534, $870,113 and $813,771, respectively. These increases were offset by decreases in the valuations of AlphaSimplex Group LLC, CSwitch, Inc., Mersana Therapeutics, Inc., NanoOpto, Inc., Polatis, Inc., and Zia Laser, Inc., of $109,464, $500,000, $563,097, $529,997, $169,827 and $1,312,500, respectively. The change in unrealized depreciation on investments sold is owing to the realization of the gain on our investment in NeuroMetrix, Inc., offset by the realization of losses on our investments in Agile Materials and Technologies, Inc., Experion Systems, Inc., Nanotechnologies, Inc., and Optiva, Inc.

The net decrease in unrealized depreciation on our venture capital investments in 2004 was the result of the appreciation in value of $264,170 on investments held and appreciation of $915,118 related to investments sold. The change in unrealized depreciation on investments held is primarily owing to an increase in the valuation of our investment in NeuroMetrix, Inc., of $6,288,405, offset by decreases in the valuations of our investments in Agile Materials and Technologies, Inc., of $614,081, Experion Systems, Inc., of $630,497, Nanotechnologies, Inc., of $1,275,373, Optiva, Inc., of $2,000,000, and Polatis, Inc., of $1,162,208. The decrease in unrealized depreciation on investments sold was owing to the realization of the loss of $915,108 on the sale of our shares of Series D Convertible Preferred Stock in NeoPhotonics Corporation. During 2004, unrealized depreciation on U.S. government and agency securities increased by $321,370. In 2004, we incurred $695,126 of income tax expense on Built-In Gains on NeuroMetrix, Inc.

Financial Condition

March 31, 2007

At March 31, 2007, our total assets and net assets were $116,508,703 and $112,526,302, respectively. At December 31, 2006, they were $118,328,590 and $113,930,303, respectively.

At March 31, 2007, net asset value per share ("NAV") was $5.27, as compared with $5.42 at December 31, 2006. At March 31, 2007, our shares outstanding increased to 21,341,029, as compared with 21,015,017 at December 31, 2006.

Significant developments in the three months ended March 31, 2007, included an increase in the value of our venture capital investments of $1,027,132 and a decrease in the value of our investment in U.S. government and agency obligations of $940,233. The increase in the value of our venture capital investments, from $53,667,831 at December 31, 2006, to $54,694,963 at March 31, 2007, resulted primarily from one new and six follow-on investments, partially offset by a net decrease of $3,834,241 in the net value of our previous venture capital investments. The decrease in the value of our U.S. government and agency obligations, from $58,656,147 at December 31, 2006, to $57,715,914 at March 31, 2007, is primarily owing to the use of funds for investments totaling $4,857,357, profit sharing payments of $261,661 and net operating expenses offset by proceeds received from stock option exercises. During the three months ended March 31, 2007, the Company issued 326,012 shares of stock and received proceeds of $3,295,978 as a result of option exercises.

The following table is a summary of additions to our portfolio of venture capital investments during the three months ended March 31, 2007:

New Investment		Amount
Adesto Technologies Corporation	$	1,147,826
Follow-on Investment		
BridgeLux, Inc.	$	350,877
Cambrios Technologies Corporation	$	1,300,000
Kereos, Inc.	$	540,000
NanoOpto Corporation	$	268,654
Nextreme Thermal Solutions, Inc.	$	750,000
Solazyme, Inc.	$	500,000
Total	$	4,857,357

The following tables summarize the fair values of our portfolios of venture capital investments and U.S. government and agency obligations, as compared with their cost, at March 31, 2007, and December 31, 2006:

	March 31, 2007	December 31, 2006
Venture capital investments, at cost	$ 66,978,984	$ 62,118,800
Net unrealized depreciation [1]	12,284,021	8,450,969
Venture capital investments, at fair value	**$ 54,694,963**	**$ 53,667,831**

	March 31, 2007	December 31, 2006
U.S. government and agency obligations, at cost	$ 58,076,776	$ 59,212,598
Net unrealized depreciation[1]	360,862	556,451
U.S. government and agency obligations, at fair value	**$ 57,715,914**	**$ 58,656,147**

[1] At March 31, 2007, and December 31, 2006, the net accumulated unrealized depreciation on investments was $12,644,883 and $9,007,420, respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at March 31, 2007, and December 31, 2006.

Category	March 31, 2007	December 31, 2006
Tiny Technology	99.9%	99.9%
Other Venture Capital Investments	0.1%	0.1%
Total Venture Capital Investments	**100.0%**	**100.0%**

December 31, 2006

At December 31, 2006, our total assets and net assets were $118,328,590 and $113,930,303, respectively. Our net asset value ("NAV") per share at that date was $5.42, and our shares outstanding increased to 21,015,017 at December 31, 2006.

During the twelve months ended December 31, 2006, significant developments included an increase in the value of our venture capital investments of $20,480,498 and a decrease in the value of our investment in U.S. government and agency securities of $37,594,717. The increase in the value of our venture capital investments, from $33,187,333 at December 31, 2005, to $53,667,831 at December 31, 2006, resulted primarily from six new and 10 follow-on investments, partially offset by a net decrease of $3,927,689 in the net value of our previous venture capital investments. The decrease in the value of our U.S. government and agency securities, from $96,250,864 at December 31, 2005, to $58,656,147 at December 31, 2006, was primarily owing to the use of funds for investments totaling $24,408,187, tax payments of $9,425,922, profit-sharing payments of $1,897,072, an increase in unrealized losses of $486,910 and payment of net operating expenses.

During December 2006, the Company also issued stock and received proceeds upon the exercise of employee stock options. Through December 31, 2006, the Company issued 258,672 shares and received proceeds of $2,615,190 as a result of option exercises.

The Company's liabilities decreased from $14,950,378 at December 31, 2005, to $4,398,287 at December 31, 2006, primarily owing to the payment of the tax payable on behalf of shareholders of $8,122,367 in January 2006, the payment of $1,897,072 in profit sharing in March 2006 and the reversal of the accrual for federal and state taxes payable of $1,514,967 recorded at December 31, 2005.

The following table is a summary of additions to our portfolio of venture capital investments made during the twelve months ended December 31, 2006, by portfolio company:

New Investments		Amount
D-Wave Systems, Inc.	$	1,750,547
Evolved Nanomaterial Sciences, Inc.		2,800,000
Innovalight, Inc.		2,500,000
Metabolon, Inc.		2,500,000
SiOnyx, Inc.		750,000
Xradia, Inc.		4,000,000
Follow-on Investments		
Chlorogen, Inc.	$	221,438
Crystal IS, Inc.		1,098,240
CSwitch Corporation		2,850,000
NanoGram Corporation		1,262,764
NanoOpto Corporation		433,138
NeoPhotonics Corporation		2,750,000
Nextreme		500,000
Polatis, Inc.		89,310
Questech Corporation		12,750
SiOnyx, Inc.		890,000
Total	$	24,408,187

The following tables summarize the fair values of our portfolios of venture capital investments and U.S. government and agency securities, as compared with their cost, at December 31, 2006, and December 31, 2005:

	December 31,			
		2006		**2005**
Venture capital investments,				
at cost	$	62,118,800	$	37,706,342
Net unrealized depreciation		8,450,969		4,519,009
Venture capital investments, at fair value	**$**	**53,667,831**	**$**	**33,187,333**

	December 31,			
		2006		**2005**
U.S. government and agency				
securities, at cost	$	59,212,598	$	96,320,405
Net unrealized depreciation		556,451		69,541
U.S. government and agency securities, at fair value	**$**	**58,656,147**	**$**	**96,250,864**

S-15

The following table summarizes the fair value composition of our venture capital investment portfolio at December 31, 2006, and December 31, 2005.

	December 31,	
Category	**2006**	**2005**
Tiny Technology	99.9%	99.9%
Other Venture Capital Investments	0.1%	0.1%
Total Venture Capital Investments	**100.0%**	**100.0%**

December 31, 2005

At December 31, 2005, our total assets and net assets were $132,938,120 and $117,987,742, respectively. Our net asset value ("NAV") per share at that date was $5.68, and our shares outstanding increased to 20,756,345 versus 17,248,845 at December 31, 2004.

During the 12 months ended December 31, 2005, significant financial developments included the receipt of proceeds from our public offering of common stock and the sale of our investment in NeuroMetrix, Inc. Gross proceeds from the issuance of 3,507,500 new shares of our common stock totaled $37,091,813, less costs of $565,246, for net proceeds of $36,526,567. The Company received proceeds of $34,591,136 from the sale of its 1,137,570 shares of NeuroMetrix. In addition, the value of our venture capital investments increased by $1,565,373, to $33,187,333.

During the 12 months ended December 31, 2005, the value of our venture capital investments increased from $31,621,960 at December 31, 2004 to $33,187,333 at December 31, 2005. This increase included $16,251,339 from four new and 11 follow-on venture capital investments and increases in the valuations of NanoGram Corporation, Nanosys, Inc. and Nantero, Inc. of $313,534, $870,113 and $813,771, respectively, offset by the sale of our interests in Agile Materials & Technologies, Inc., Experion Systems, Inc., Nanotechnologies, Inc., NeuroMetrix, Inc., and Optiva, Inc., and by decreases in the valuation of our investments in AlphaSimplex Group LLC, CSwitch Corporation, Mersana Therapeutics, Inc., NanoOpto Corporation, Polatis, Inc., and Zia Laser, Inc., of $109,464, $500,000, $563,097, $529,997, $169,827 and $1,312,500, respectively.

The increase in the value of our investment in U.S. government and agency securities, from $44,622,722 at December 31, 2004, to $96,250,864 at December 31, 2005, resulted primarily from the receipt of net proceeds of $36,526,567 pursuant to the issuance of 3,507,500 new shares of our common stock and proceeds from the sale of NeuroMetrix of $34,591,136. These increases were partially offset by four new venture capital investments and eleven follow-on investments totaling $16,251,339, as well as by operating expenses.

The Company's liabilities increased from $4,616,652 at December 31, 2004, to $14,959,881 at December 31, 2005. The increases were attributable to an increase of $1,796,264 in the profit- sharing accrual, the provision of $8,122,367 for taxes payable by the Company on behalf of shareholders on the deemed dividend and provision for current taxes payable of $1,524,470.

The following table is a summary of additions to our portfolio of venture capital investments during the 12 months ended December 31, 2005:

New Investment		Amount
eLite Optoelectronics, Inc.	$	1,000,000
Kereos, Inc.		800,000
Kovio, Inc.		3,000,000
Zia Laser, Inc.		1,500,000
Follow-on Investments		
Cambrios Technologies Corporation	$	511,006
Chlorogen, Inc.		364,261
Kereos, Inc.		160,000
Molecular Imprints, Inc.		2,500,000
Nanomix, Inc.		250,000
NanoOpto Corporation		411,741
Mersana Therapeutics, Inc.		683,000
Nanosys, Inc.		3,000,003
Nantero, Inc.		571,329
NeoPhotonics Corporation		999,999
Starfire Systems, Inc.		500,000
Total	$	16,251,339

Cash Flow

Year Ended December 31, 2006

Net cash used in operating activities for the year ended December 31, 2006, was $14,955,302, primarily owing to the payment of various federal, state and local taxes, including the tax paid on behalf of shareholders for the deemed dividend, and to the payment of operating expenses.

Cash provided by investing activities for the year ended December 31, 2006, was $13,198,611, primarily reflecting net proceeds from the sale of U.S. government and agency securities of $37,593,589, less investments in private placements of $24,408,187.

Cash provided by financing activities for the year ended December 31, 2006, was $2,615,190, reflecting the issuance of shares in connection with the Stock Plan.

Year Ended December 31, 2005

Net cash used in operating activities for the year ended December 31, 2005, was $2,914,285, primarily owing to an increase in our operating expenses.

Cash used in investing activities for the year ended December 31, 2005, was $33,049,325, primarily reflecting a net increase in our investment in U.S. government and agency securities of $52,144,482 and investments in private placements of $16,251,339, less proceeds from the sale of venture capital investments of $35,392,200.

Cash provided by financing activities for the year ended December 31, 2005, was $36,526,567, reflecting net proceeds from the issuance of 3,507,500 new shares of our common stock on September 14, 2005, in an underwritten follow-on offering.

Year Ended December 31, 2004

Net cash used in operating activities for the year ended December 31, 2004, was $3,809,805, primarily owing to an increase in our operating expenses.

Cash used in investing activities for the year ended December 31, 2004, was $32,093,612, primarily reflecting an increase in our investment in U.S. government and agency securities of $17,823,606 and investments in private placements of $16,731,216.

Cash provided by financing activities for the year ended December 31, 2004, was $36,128,175, reflecting net proceeds from the issuance of 3,450,000 new shares of our common stock on July 7, 2004, in an underwritten follow-on offering.

Background and Overview

We incorporated under the laws of the state of New York in August 1981. In 1983, we completed an initial public offering and invested $406,936 in Otisville BioTech, Inc., which also completed an initial public offering later that year. In 1984, Charles E. Harris purchased a controlling interest in us which also made him the control person of Otisville. We then divested our other assets and became a financial services company, with the investment in Otisville as the initial focus of our business activity.

In 1992, we registered as an investment company under the 1940 Act, commencing operations as a closed-end, non-diversified investment company. In 1995, we elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act.

Throughout our corporate history, we have made early stage venture capital investments in a variety of industries. We define venture capital investments as investments in start-up firms and small businesses with exceptional growth potential. We have invested a substantial portion of our assets in venture capital investments of private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth, have little or no history of operations and are developing unproven technologies. At December 31, 2006, $53,667,831, or 47.1 percent, of our net assets at fair value consisted of private venture capital investments, net of unrealized depreciation of $8,450,969. At December 31, 2005, $33,187,333, or 28.1 percent, of our net assets at fair value consisted of private venture capital investments, net of unrealized depreciation of $4,519,009.

Since our investment in Otisville in 1983 through December 31, 2006, we have made a total of 73 venture capital investments, including four private placement investments in securities of publicly traded companies. We have sold 44 of these 73 investments, realizing total proceeds of $143,614,382 on our invested capital of $51,229,202. As measured from first dollar in to last dollar out, the average and median holding periods for these 44 investments were 3.63 years and 3.19 years, respectively. As measured by the 149 separate rounds of investment within these 44 investments, the average and median holding periods for the 149 separate rounds of investment were 2.84 years and 2.44 years, respectively.

Liquidity and Capital Resources

Our primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. Our secondary sources of liquidity are restricted securities of companies that are publicly traded.

Our primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. Our secondary sources of liquidity are restricted securities of companies that are publicly traded.

At March 31, 2007, and December 31, 2006, our total net primary liquidity was $58,829,464 and $61,323,306, respectively, and our secondary liquidity was $0 and $0, respectively.

The decrease in our primary liquidity from December 31, 2006, to March 31, 2007, is primarily owing to the use of funds for investments and payment of net operating expenses.

In September 2005, we completed the sale of 3,507,500 common shares, for total gross proceeds of $37,091,813; net proceeds, after offering costs of $565,246, were $36,526,567. We intend to use, and have been using, the net proceeds of this offering to make new investments in tiny technology, as well as for follow-on investments in our existing venture capital investments and for working capital. Through March 31, 2007, we have used $25,048,657 of the net proceeds from this offering for these purposes.

December 31, 2006

At December 31, 2006, and December 31, 2005, our total net primary liquidity was $61,323,306 and $97,797,219, respectively, and our secondary liquidity was $0 and $0, respectively.

Our net primary sources of liquidity are more than adequate to cover our gross cash operating expenses over the next 12 months. Our gross cash operating expenses for 2006 and 2005 totaled $5,285,448 and $5,021,066, respectively.

The decrease in our primary liquidity from December 31, 2005, to December 31, 2006, is primarily owing to the use of funds for investments, profit-sharing and tax payments, as well as for net operating expenses.

In 2004, we registered with the SEC for the sale of up to 7,000,000 shares of our common stock from time to time. In July 2004, we sold 3,450,000 common shares for gross proceeds of $36,501,000; net proceeds, after offering costs of $372,825, were $36,128,175. In September 2005, we completed the sale of 3,507,500 common shares, for total gross proceeds of $37,091,813; net proceeds, after offering costs of $565,246, were $36,526,567. We intend to use, and have been using, the net proceeds of the offerings to make new investments in tiny technology as well as follow-on investments in our existing venture capital investments, and for working capital. Through December 31, 2006, we used $53,932,228 from these two offerings for these purposes.

December 31, 2005

At December 31, 2005, and December 31, 2004, our total net primary liquidity was $97,797,219 and $45,353,691, respectively, and our secondary liquidity was $0 and $13,113,822, respectively.

Our net primary sources of liquidity were more than adequate to cover our gross cash operating expenses over the next 12 months. Our gross cash operating expenses for 2005 and 2004 totaled $5,021,066 and $3,878,610, respectively.

The increase in our primary source of liquidity from December 31, 2004, to December 31, 2005, was primarily owing to the receipt of the net proceeds from the issuance of 3,507,500 new shares of our common stock and the net proceeds from the sale of our investment in NeuroMetrix, Inc. These receipts were partially offset by our investments in Cambrios, Inc., Chlorogen, Inc., eLite Optoelectronics, Inc., Kereos, Inc., Kovio, Inc., Mersana Therapeutics, Inc., Molecular Imprints, Inc., Nanomix, Inc., NanoOpto Corporation, Nanosys, Inc., Nantero, Inc., NeoPhotonics Corporation, Starfire Systems, Inc., and Zia Laser, Inc., and the use of funds for net operating expenses.

On November 19, 2001, we established an asset account line of credit. The asset account line of credit was secured by U.S. government and agency securities. Under the asset account line of credit, we were able to borrow up to $8,000,000. The asset account line of credit could be increased to up to 95 percent of the current value of the U.S. government and agency securities with which we secure the line. The asset account line of credit carried interest at a rate of the Broker Call Rate plus 50 basis points. Our outstanding balance under the asset account line of credit at December 31, 2004, was $0. The Company terminated this line of credit on November 1, 2005.

PLAN OF DISTRUBUTION

Global Crown Capital, LLC (the "placement agent"), located at 101 California Street, Suite 4550, San Francisco, CA 94111, has entered into a placement agency agreement with us in which they have agreed to act as placement agent in connection with this offering. Under the terms of the placement agency agreement, the placement agent has agreed to be our exclusive placement agent in connection with the issuance and sale by us of up to 1,300,000 shares of our Common Stock for $10.79 in a proposed takedown from our registration statement. The offering price was determined by the 10-day volume-weighted average price (VWAP) minus five percent. The placement agent is not purchasing or selling any shares by this Prospectus Supplement or accompanying Prospectus, nor is it required to arrange for the purchase or sale of any specific number or dollar amount of shares, but has agreed to use best efforts to arrange for the sale of all 1,300,000 shares.

The terms of any such offering will be subject to market conditions and negotiations between us, the placement agent, and prospective purchasers. The shares will be offered to prospective purchasers for $10.79 per share. The placement agency agreement provides that the obligations of the placement agent are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us and our counsel.

The placement agent proposes to arrange for the sale to one or more purchasers of the Common Stock offered pursuant to this Prospectus Supplement and the accompanying Prospectus through direct subscription agreements between the purchasers and us. Confirmations and definitive prospectuses will be distributed to all investors who agree to purchase the Common Stock, informing investors of the closing date as to such shares. We currently anticipate that closing of the sale of 1,300,000 shares of Common Stock will take place on or about June 20, 2007.

On the scheduled closing date, the following will occur:

- we will receive funds in the amount of the aggregate purchase price; and
- Global Crown Capital, LLC will receive the placement agent's fee in accordance with the terms of the placement agent agreement.

We will deliver the Common Stock being issued to the purchasers electronically upon receipt of purchaser funds for the purchase of the shares of our Common Stock offered pursuant to this Prospectus Supplement. We will not issue certificated shares of Common Stock to purchasers in this offering.

The placement agent has informed us that it will not engage in over-allotment, stabilizing transactions or syndicate covering transactions in connection with this offering.

In order to facilitate the closing, certain purchaser funds will be deposited into a non-interest bearing escrow account and held by Citibank, N.A., as escrow agent, until jointly released by us and the placement agent in a written instruction to the escrow agent on the date the shares are delivered to the purchasers. The escrow agent will not accept any purchaser funds until the date of this Prospectus Supplement. The escrow agent or its affiliates may provide investment banking, additional commercial banking and/or other services to us from time to time, for which it may in the future receive customary fees and expenses.

We have agreed to indemnify the placement agent against certain liabilities, including liabilities under the 1933 Act, or to contribute to payments the placement agent may be required to make in respect of those liabilities; provided that such indemnification shall not extend to any liability or action resulting from the gross negligence or willful misconduct of the placement agent.

Commissions and Discounts

We have agreed to pay the placement agent a fee equal to 6.0 percent (6%) of the proceeds of this offering. Under no circumstances will the fee, commission or discount received by the placement agent or any other NASD member or independent broker-dealer exceed eight percent (8%) of the gross proceeds to us in this offering or any other offering in the United States pursuant to the Prospectus. The following table shows the per share and total fees we will pay to the placement agent in connection with the sale of the shares being offered pursuant to this Prospectus Supplement and the accompanying Prospectus, assuming the purchase of all the shares offered hereby.

Per share placement agent’s fee	$0.65
Total placement agent’s fee	$841,620

We estimate that the total expenses of this offering that will be payable by us, excluding the placement agent’s fee and the reimbursement of the placement agent for other reasonable expenses incurred in connection with this offering, will be approximately $124,500. After deducting certain fees due to the placement agent and our estimated offering expenses, we expect the net proceeds from this offering to be up to approximately $13,060,880.

LEGAL MATTERS

Certain legal matters will be passed on by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, our special counsel in connection with the offering of Common Stock.

CONSOLIDATED FINANCIAL STATEMENTS

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

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the results of this assessment, management (including our Chief Executive Officer and Chief Financial Officer) has concluded that, as of December 31, 2006, the Company's internal control over financial reporting was effective.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm.

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Harris & Harris Group, Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. (the "Company") at December 31, 2006 and December 31, 2005, and the results of its operations, its cash flows, the changes in its net assets and the financial highlights for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian, provide a reasonable basis for our opinion.

As more fully disclosed in Note 2 of the Notes to Consolidated Financial Statements, the financial statements include investments valued at $53,667,831 (47.1% of net assets) at December 31, 2006, the fair values of which have been estimated by the Board of Directors in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
March 15, 2007

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2006	December 31, 2005
ASSETS		
Investments, at value (Cost: $121,331,398 at 12/31/06, $134,026,747 at 12/31/05	$ 112,323,978	$ 129,438,197
Cash and cash equivalents	2,071,788	1,213,289
Restricted funds (Note 6)	2,149,785	1,730,434
Receivable from portfolio company	0	75,000
Receivable from broker (Note 3)	819,905	0
Interest receivable	625,372	248,563
Prepaid expenses	10,945	2,993
Other assets	326,817	229,644
Total assets	$ 118,328,590	$ 132,938,120
LIABILITIES & NET ASSETS		
Accounts payable and accrued liabilities (Note 6)	$ 4,115,300	$ 3,174,183
Accrued profit sharing (Note 4)	261,661	2,107,858
Deferred rent	21,326	31,003
Current taxes payable	0	1,514,967
Taxes payable on behalf of shareholders (Note 7)	0	8,122,367
Total liabilities	4,398,287	14,950,378
Net assets	$ 113,930,303	$ 117,987,742
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, 45,000,000 shares authorized at 12/31/06 and 30,000,000 at 12/31/05; 22,843,757 issued at 12/31/06 and 22,585,085 issued at 12/31/05	228,438	225,851
Additional paid in capital (Note 9)	129,801,201	122,149,642
Accumulated net realized income (loss)	(3,747,912)	3,781,905
Accumulated unrealized depreciation of investments	(9,007,420)	(4,764,125)
Unrecognized net gain on retirement benefit plans (Note 6)	61,527	
Treasury stock, at cost (1,828,740 shares at 12/31/06 and 12/31/05)	(3,405,531)	(3,405,531)
Net assets	$ 113,930,303	$ 117,987,742
Shares outstanding	21,015,017	20,756,345

Net asset value per outstanding share	$	5.42	$	5.68

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Investment income:			
Interest from:			
Fixed-income securities	$ 2,991,261	$ 1,409,273	$ 614,728
Portfolio companies	0	65,620	22,834
Miscellaneous income	37,500	65,969	0
Total investment income	3,028,761	1,540,862	637,562
Expenses:			
Salaries, benefits and stock-based compensation (Note 3)	7,933,276	2,459,033	1,928,088
Administration and operations	1,250,080	1,319,354	718,530
Profit-sharing provision (Note 4)	50,875	1,796,264	311,594
Professional fees	737,828	830,062	667,311
Rent	239,846	211,582	151,434
Directors' fees and expenses	340,750	308,874	209,210
Depreciation	64,916	64,713	43,151
Custodian fees	24,125	16,741	17,023
Total expenses	10,641,696	7,006,623	4,046,341
Net operating loss	(7,612,935)	(5,465,761)	(3,408,779)
Net realized gain from investments:			
Realized gain from investments	31,338	23,862,037	813,994
Income tax (benefit) expense (Note 7)	(227,355)	9,653,248	(44,509)
Net realized gain from investments	258,693	14,208,789	858,503
Net (increase) decrease in unrealized depreciation on investments:			
Change as a result of investment sales	0	(23,181,420)	915,118
Change on investments held	(4,418,870)	19,790,298	264,170
Change in unrealized depreciation on investments	(4,418,870)	(3,391,122)	1,179,288
Income tax (benefit) expense (Note 7)	0	(1,364,470)	695,126
Net decrease (increase) in unrealized depreciation on investments	(4,418,870)	(2,026,652)	484,162
Net (decrease) increase in net assets resulting from operations:			
Total	**$ (11,773,112)**	**$ 6,716,376**	**$ (2,066,114)**
Per average basic and diluted outstanding share	**$ (0.57)**	**$ 0.36**	**$ (0. 13)**
Average outstanding shares	**20,759,547**	**18,471,770**	**15,476,714**

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Cash flows used in operating activities:			
Net (decrease) increase in net assets resulting from operations	$ (11,773,112)	$ 6,716,376	$ (2,066,114)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:			
Net realized and unrealized loss (gain) on investments	4,420,619	(20,470,915)	(1,993,282)
Deferred income taxes	0	(1,364,470)	695,126
Depreciation and amortization	(426,168)	346,019	43,151
Taxes payable on behalf of shareholders on deemed dividend	0	8,122,367	0
Stock-based compensation expense	5,038,956	0	0
Changes in assets and liabilities:			
Restricted funds	(419,351)	(138,463)	(379,893)
Receivable from portfolio company	75,000	(65,000)	(10,000)
Interest receivable	(376,808)	(189,603)	(58,510)
Income tax receivable	0	(7,023)	14,895
Prepaid expenses	(7,951)	539,496	(535,648)
Other receivables	(819,905)	0	0
Other assets	(176,325)	11,599	(8,666)
Accounts payable and accrued liabilities	1,002,643	268,525	182,260
Accrued profit sharing	(1,846,197)	1,796,264	311,594
Deferred rent	(9,677)	(3,927)	(4,718)
Current income tax liability	(9,637,026)	1,524,470	0
Net cash used in operating activities	(14,955,302)	(2,914,285)	(3,809,805)
Cash flows from investing activities:			
Net (purchase) sale of short-term investments and marketable securities	37,593,589	(52,144,482)	(17,823,606)
Investment in private placements and loans	(24,408,187)	(16,251,339)	(16,731,216)
Proceeds from sale of investments	28,295	35,392,200	2,530,483
Purchase of fixed assets	(15,086)	(45,704)	(69,273)
Net cash provided by (used in) investing activities	13,198,611	(33,049,325)	(32,093,612)
Cash flows from financing activities:			
Proceeds from public offering, net (Note 9)	0	36,526,567	36,128,175
Proceeds from stock option exercises (Note 3)	2,615,190	0	0
Net cash provided by financing activities	2,615,190	36,526,567	36,128,175

Net increase in cash and cash equivalents:						
Cash and cash equivalents at beginning of the year		1,213,289		650,332		425,574
Cash and cash equivalents at end of the year		2,071,788		1,213,289		650,332
Net increase in cash and cash equivalents	$	858,499	$	562,957	$	224,758
Supplemental disclosures of cash flow information:						
Income taxes paid	$	9,425,922	$	0	$	0

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Changes in net assets from operations:			
Net operating loss	$ (7,612,935)	$ (5,465,761)	$ (3,408,779)
Net realized income (loss) on investments	258,693	14,208,789	858,503
Net increase (decrease) in unrealized depreciation on investments as a result of sales	0	(23,181,420)	915,118
Net (increase) decrease in unrealized depreciation on investments held	(4,418,870)	19,790,298	264,170
Net change in deferred taxes	0	1,364,470	(695,126)
Net increase (decrease) in net assets resulting from operations	(11,773,112)	6,716,376	(2,066,114)
Changes in net assets from capital stock transactions:			
Issuance of common stock upon the exercise of stock options	2,587	0	0
Proceeds from sale of stock	0	35,075	34,500
Additional paid in capital on common stock issued	2,612,603	36,491,492	36,093,675
Stock based compensation expense	5,038,956	0	0
Net increase in net assets resulting from capital stock transactions	7,654,146	36,526,567	36,128,175
Changes in net assets from adoption of SFAS No. 158	61,527	0	0
Net (decrease) increase in net assets	(4,057,439)	43,242,943	34,062,061
Net Assets:			
Beginning of the year	117,987,742	74,744,799	40,682,738
End of the year	$ 113,930,303	$ 117,987,742	$ 74,744,799

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2006

	Method of Valuation (3)	Shares/ Principal	Value
Investments in Unaffiliated Companies (6)(7) - 15.61% of net assets			
Private Placement Portfolio (Illiquid) - 15.61% of net assets			
AlphaSimplex Group, LLC (2) — Investment management company headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT Limited Liability Company Interest	(B)	—$	10,521
Exponential Business Development Company (1)(2) — Venture capital partnership focused on early stage companies Limited Partnership Interest	(B)	—	0
Molecular Imprints, Inc. (1)(2) — Manufacturing nanoimprint lithography capital equipment			
Series B Convertible Preferred Stock	(A)	1,333,333	2,000,000
Series C Convertible Preferred Stock	(A)	1,250,000	2,500,000
Warrants at $2.00 expiring12/31/11	(B)	125,000	0
			4,500,000
Nanosys, Inc. (1)(2)(5) — Developing zero and one-dimensional inorganic nanometer-scale materials for use in nanotechnology-enabled systems			
Series C Convertible Preferred Stock	(C)	803,428	2,370,113
Series D Convertible Preferred Stock	(C)	1,016,950	3,000,003
			5,370,116
Nantero, Inc. (1)(2)(5) — Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes			
Series A Convertible Preferred Stock	(C)	345,070	1,046,908
Series B Convertible Preferred Stock	(C)	207,051	628,172
Series C Convertible Preferred Stock	(C)	188,315	571,329
			2,246,409

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2006

	Method of Valuation (3)	Shares/ Principal		Value
Investments in Unaffiliated Companies (6)(7) - 15.61% of net assets (cont.)				
Private Placement Portfolio (Illiquid) - 15.61% of net assets (cont.)				
NeoPhotonics Corporation (1)(2) — Developing and manufacturing planar optical devices and components				
Common Stock	(C)	716,195	$	133,141
Series 1 Convertible Preferred Stock	(C)	1,831,256		1,831,256
Series 2 Convertible Preferred Stock	(C)	741,898		741,898
Series 3 Convertible Preferred Stock	(C)	2,750,000		2,750,000
Warrants at $0.15 expiring 01/26/10	(C)	16,364		164
Warrants at $0.15 expiring 12/05/10	(C)	14,063		140
				5,456,599
Polatis, Inc. (1)(2)(5)(10) — Developing optical networking components by merging materials, MEMS and electronics technologies				
Series A-1 Convertible Preferred Stock	(B)	16,775		0
Series A-2 Convertible Preferred Stock	(B)	71,611		141,520
Series A-4 Convertible Preferred Stock	(B)	4,774		9,435
Series A-5 Convertible Preferred Stock	(B)	5,491		45,127
				196,082
Total Unaffiliated Private Placement Portfolio (cost: $18,107,124)			**$**	**17,779,727**
Total Investments in Unaffiliated Companies (cost: $18,107,124)			**$**	**17,779,727**

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

S-31

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2006

	Method of Valuation (3)	Shares/Principal		Value
Investments in Non-Controlled Affiliated Companies (6)(8) -28.20% of net assets				
Private Placement Portfolio (Illiquid) - 28.20% of net assets				
BridgeLux, Inc. (1)(2)(11) — Manufacturing high-power light emitting diodes				
Series B Convertible Preferred Stock	(A)	1,861,504	$	1,000,000
Cambrios Technologies Corporation (1)(2)(5) — Developing nanowire-enabled electronic materials for the display industry				
Series B Convertible Preferred Stock	(A)	1,294,025		1,294,025
Chlorogen, Inc. (1)(2)(5) — Developing patented chloroplast technology to produce plant-made proteins				
Series A Convertible Preferred Stock	(C)	4,478,038		785,000
Series B Convertible Preferred Stock	(C)	2,077,930		364,261
Secured Convertible Bridge Note (including interest)	(A)			