HARRIS & HARRIS GROUP INC /NY/
Form POS 8C
May 29, 2008

As filed with the Securities and Exchange Commission on May 29, 2008

Securities Act Registration No. 333-138996
Investment Company Act File Number 814-176

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

FORM N-2

Registration Statement Under The Securities Act Of 1933:

Pre-Effective Amendment No.	**o**
Post-Effective Amendment No. 4	**T**

HARRIS & HARRIS GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

111 West 57th Street
Suite 1100
New York, New York 10019
(Address of Principal Executive Offices)

(212) 582-0900
(Registrant's Telephone Number, including Area Code)

Charles E. Harris, Chairman, CEO
111 West 57th Street
Suite 1100
New York, New York 10019
(Name and Address of Agent for Service)

Copies to:

Sandra M. Forman, Esq. **Richard T. Prins, Esq.**

General Counsel
Harris & Harris Group, Inc.
111 West 57th Street, Suite 1100
New York, NY 10019
(212) 582-0900

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036
(212) 735-3000

Approximate Date of Proposed Public Offering:
From time to time after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. T

It is proposed that this filing will become effective (check appropriate box)

T when declared effective pursuant to Section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.01 par value	2,700,000	$7.97	$21,519,000	$846 (2)

(1) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 and based on the average of the high and low prices as reported on the Nasdaq Global Market of the registrant's Common Stock on May 28, 2008.

(2) $1,186.43 previously paid in connection with this Registration Statement filed on November 27, 2006.

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HARRIS & HARRIS GROUP, INC.
CROSS-REFERENCE SHEET

PART A-THE PROSPECTUS

Items in Part A of Form N-2		Location in Prospectus
Item 1.	Outside Front Cover	Front Cover Page
Item 2.	Cover Pages; Other Offering Information	Front Cover Page; Inside Front Cover Page; Available Information
Item 3.	Fee Table and Synopsis	Prospectus Summary; Table of Fees and Expenses
Item 4.	Financial Highlights	Selected Condensed Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 5.	Plan of Distribution	Plan of Distribution
Item 6.	Selling Shareholders	Not Applicable
Item 7.	Use of Proceeds	Prospectus Summary; Use of Proceeds
Item 8.	General Description of the Registrant	Outside Front Cover; Business; Risk Factors; Investment Policies; Price Range of Common Stock; General Description of our Portfolio Companies
Item 9.	Management	Management of the Company
Item 10.	Capital Stock, Long-Term Debt and Other Securities	Prospectus Summary; Capitalization; Dividends and Distributions; Taxation; Risk Factors
Item 11.	Defaults and Arrears on Senior Securities	Not Applicable
Item 12.	Legal Proceedings	Management of the Company
Item 13.	Table of Contents of the Statement of Additional Information	Not Applicable

Items in Part B of Form N-2[1]		Location in Prospectus
Item 14.	Cover Page	Not Applicable
Item 15.	Table of Contents	Not Applicable
Item 16.	General Information and History	Not Applicable
Item 17.	Investment Objective and Policies	Business; Investment Policies
Item 18.	Management of the Company	Management of the Company; Certain Government Regulations
Item 19.	Control Persons and Principal Shareholders	Management of the Company
Item 20.	Investment Advisory and Other Services	Management of the Company; Experts
Item 21.	Portfolio Managers	Management of the Company
Item 22.	Brokerage Allocation and Other Practices	Brokerage
Item 23.	Tax Status	Taxation
Item 24.	Financial Statements	Consolidated Financial Statements

PART C-OTHER INFORMATION

Items 25-34 have been answered in Part C of this Registration Statement.

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(1) Pursuant to General Instructions to Form N-2, all information required by Part B: Statement of Additional Information has been incorporated into Part A: The Prospectus of the Registration Statement.

The information in this Prospectus is not complete and may be changed. We may not sell securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus, Dated May 29, 2008

2,700,000 Shares

Common Stock

Harris & Harris Group, Inc.®, is a venture capital company specializing in tiny technology that operates as a business development company under the Investment Company Act of 1940. We may offer, from time to time, shares of our common stock, $0.01 par value per share ("Common Stock"), in one or more delayed offerings. The Common Stock may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a "Prospectus Supplement"). The offering price per share of our Common Stock will not be less than the net asset value per share of our Common Stock at the time we make the offering exclusive of any underwriting commissions or discounts. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Common Stock.

Our Common Stock may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Common Stock, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. We may not sell any of our Common Stock through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Common Stock. Our Common Stock is listed on the Nasdaq Global Market under the symbol "TINY." On May 28, 2008, the last reported sale price of our Common Stock was $7.98.

An Investment in the Securities Offered in this Prospectus Involves a High Degree of Risk. You Should Consider Investing in Us Only if You Are Capable of Sustaining the Loss of Your Entire Investment. See "Risk Factors" beginning on page 24.

This Prospectus sets forth concisely the information about us that a prospective investor should know before investing. You should read this Prospectus, before deciding whether to invest in our Common Stock, and retain it for future reference. You may obtain our annual reports, request other information about us and make shareholder inquiries by calling toll free 1-877-TINY TECH. Additional information about us has been filed with the Securities and Exchange Commission ("SEC") and is available upon written or oral request and without charge. We also make available our annual reports, free of charge, on our website at www.TinyTechVC.com. Information on our website is not part of this Prospectus and should not be considered as such when making your investment decision. Material incorporated by reference and other information about us can be obtained from the SEC's website (http://www.sec.gov).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of the Prospectus is , 2008.

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You should rely only on the information contained or incorporated by reference in this Prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

In this Prospectus, unless otherwise indicated, "Harris & Harris," "Company," "us," "our" and "we" refer to Harris & Harris Group, Inc.® "Harris & Harris Group, Inc." is a registered service mark. This Prospectus also includes trademarks owned by other persons.

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STATEMENTS

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PROSPECTUS SUMMARY

This summary highlights information that is described more fully elsewhere in this Prospectus and in the documents to which we have referred. It may not contain all of the information that is important to you. To understand the offering fully, you should read the entire document carefully, including the risk factors beginning on page 24.

Our Business

Harris & Harris Group, Inc., is a venture capital company, specializing in tiny technology, that operates as a business development company under the Investment Company Act of 1940, which we refer to as the 1940 Act. For tax purposes, we operate as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, which we refer to as the Code. We are an internally managed investment company; that is, our officers and employees, rather than an investment adviser, manage our operations under the general supervision of our Board of Directors. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Our approach includes patient examination of available early stage opportunities, thorough due diligence and close involvement with management.

We make initial venture capital investments exclusively in "tiny technology," which we define as nanotechnology, microsystems and microelectromechanical systems (which we refer to as MEMS). Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Microsystems and microelectromechanical systems are measured in micrometers, which are units of measurement in millionths of a meter. We consider a company to be a tiny technology company if a product or products, or intellectual property covering a product or products, that we consider to be at the microscale or smaller is material to its business plan. At March 31, 2008, 60.9 percent of our net assets and 99.9 percent of our venture capital portfolio were invested in tiny technology investments. The remaining 0.1 percent of our venture capital portfolio represents one non-tiny technology investment made prior to 2001. We may make follow-on investments in any of our portfolio 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 addresses 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.

Except for our holdings of U.S. treasury securities for liquidity, all of our current investments are in privately held, venture-capital-backed companies. All of our active portfolio companies are involved in tiny technology. We define active portfolio companies as those companies that are currently operating and are not in the process of unwinding their businesses. Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that was not previously in widespread use. Products enabled by tiny technology are found in many industries, including pharmaceuticals, medical devices, electronics and cleantech, which includes alternative-energy and energy-saving products. A subset of our tiny-technology companies are focused on the commercialization of cleantech products, which we refer to as our “Tiny Tech for Cleantech” portfolio. The use of nanotechnology-enabled advanced materials for clean energy in particular is an area of increasing global interest, and these types of materials are the cornerstones of new generations of photovoltaics, batteries, solid-state lighting, fuel cells, bio-fuels and other energy-related applications that are the focus of a number of recently funded early-stage companies. Although we have not specifically targeted investments in cleantech companies, as of March 31, 2008, eight of our 31 active portfolio companies were in our "Tiny Tech for Cleantech" portfolio. These companies represented 35.5 percent of the value of the active companies in our portfolio as of March 31, 2008.

As a venture capital company, we make it possible for our investors to participate at an early stage in this emerging field, while our portfolio companies are still private. 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 in the future, as we believe it will likely become increasingly difficult to create new foundational intellectual property in nanotechnology. Because we typically invest as part of a syndicate of venture capital firms, the syndicate's time horizon often determines ours, though we may provide seed capital before forming a syndicate with other investors, or maintain our investment in an investee company after it goes public, even after our co-investors sell or distribute their shares. To the investor, we offer:

- a portfolio consisting of investments that are generally available only to a small, highly specialized group of professional venture capital firms as investors;

- a team of professionals, including six full-time members of management, five of whom are designated as Managing Directors: Charles E. Harris, Douglas W. Jamison, Alexei A. Andreev, Michael A. Janse and Daniel B. Wolfe, and a Vice President, Misti Ushio, to evaluate and monitor investments. One of our directors is also a consultant to us, Lori D. Pressman. These seven professionals collectively have expertise in venture capital investing, intellectual property and tiny technology;

- the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and

- through the ownership of our publicly traded shares, a measure of liquidity not typically available in underlying venture capital portfolio investments.

The number of tiny technology investment opportunities available to us has increased over the past five years, through both new opportunities and opportunities for follow-on investments in our existing portfolio companies. We believe that our expertise and record of prior investments in tiny technology are likely to lead us to additional tiny technology investment opportunities in the future. We intend to use the net proceeds of this offering to:

- increase our capital in order to take advantage of these investment opportunities;

- lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations, as our costs are primarily fixed. As our assets increase by the net proceeds of this offering, our fixed costs will represent a smaller percentage of our assets; and

- pay operating expenses, including due diligence expenses on potential investments.

We identify investment opportunities primarily through four channels:

- our involvement in the field of tiny technology;

- research universities that seek to transfer their scientific discoveries to the private sector;

- other venture capital companies seeking co-investors or referring deals to us; and

- direct calls and business plan submissions by companies, business incubators and individuals seeking venture capital.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first tiny technology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a business development company. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001, we have made tiny technology our exclusive focus for initial investments. From August 2001 through March 31, 2008, all 39 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology. At March 31, 2008, our portfolio included investments in a total of 34 companies, 31 of which we consider to be active tiny technology companies.

As is usual in the venture capital industry, our venture capital investments are generally in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of common stock (usually including the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature. Our portfolio investments in some instances include a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash. In-kind distributions are primarily made in additional shares of convertible preferred stock. We expect to continue to invest in convertible securities.

Tiny Technology

In our view, tiny technology is neither an industry nor a single technology, but a variety of enabling technologies with critical dimensions below 100 micrometers. Tiny technology manifests itself in tools, materials, systems and devices that address broad markets, including instrumentation, alternative energy, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, materials science, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include sensors, accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellant surfaces, fast acting painkillers and certain pharmaceutical therapeutics.

We currently have 15 companies in our tiny technology portfolio that generate commercial revenue from the sale of products or services. These companies offer a range of products including components for optical networking, high-brightness LEDs, carbon nanotube-based sensors, optical switches, silicon carbide brake rotors, solid-state cooling, metabolomic profiling services and decorative tiles.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device, or device enabled by components, in a size range from 100 microns down to 0.1 micron may be considered "micro." Nanotechnology refers to materials, devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology’s broad applicability presents significant and diverse market opportunities.

Risk Factors

Set forth below is a summary of certain risks that you should carefully consider before investing in our Common Stock. See "Risk Factors" beginning on page 24 for a more detailed discussion of the risks of investing in our Common Stock.

Risks related to the companies in our portfolio.

- A continuing lack of initial public offering opportunities may cause companies to stay in our portfolio longer, leading to lower returns, write-downs and write-offs.
- Investing in small, private companies involves a high degree of risk and is highly speculative.
- We may invest in companies working with technologies or intellectual property that currently have few or no proven commercial applications.
- Our portfolio companies may not successfully develop, manufacture or market their products.

- Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

- Unfavorable general economic conditions, as well as unfavorable conditions specific to the venture capital industry or a segment of portfolio companies, could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.

- Unstable credit markets could adversely affect our portfolio companies.

- The value of our portfolio could be adversely affected if the technologies utilized by our portfolio companies are found or even rumored or feared, to cause health or environmental risks, or if legislation is passed that limits the commercialization of any of these technologies.

- Our portfolio companies may generate revenues from the sale of non-tiny technology-enabled products.

Risks related to the illiquidity of our investments.

- We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.

- Unfavorable economic conditions and regulatory changes could impair our ability to engage in liquidity events.

- Even if some of our portfolio companies complete initial public offerings, the returns on our investments in those companies would be uncertain.

Risks related to our Company.

- Because there is generally no established market in which to value our investments, our Valuation Committee’s value determinations may differ materially from the values that a ready market or third party would attribute to these investments.

- Changes in valuations of our privately held, early stage companies tend to be more volatile than changes in prices of publicly traded securities.

- We expect to continue to experience material write-downs of securities of portfolio companies.

- Because we do not choose investments based on a strategy of diversification, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.

- We are dependent upon key management personnel for future success and may not be able to retain them.

- We will need to hire additional employees as the size of our portfolio increases.

- The market for venture capital investments, including tiny technology investments, is highly competitive.

- In addition to the difficulty of finding attractive investment opportunities, our status as a regulated business development company may hinder our ability to participate in investment opportunities or to protect the value of existing investments.

- Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

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Bank borrowing or the issuance of debt securities or preferred stock by us, to fund investments in portfolio companies or to fund our operating expenses, would make our total return to common shareholders more volatile. The use of debt would leverage our available common equity capital, magnifying the impact of changes in the value of our investment portfolio on our net asset value. In addition, the cost of debt or preferred stock financing could exceed the return on the assets the proceeds are used to acquire, in which case the use of leverage would have an adverse impact on the holders of our Common Stock.

- We are authorized to issue preferred stock, which would convey special rights and privileges to its owners senior to those of Common Stock shareholders.

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- Loss of status as a RIC would reduce our net asset value and distributable income.
- We operate in a heavily regulated environment, and changes to, or non-compliance with, regulations and laws could harm our business.
- Market prices of our Common Stock will continue to be volatile.
- Quarterly results fluctuate and are not indicative of future quarterly performance.
- To the extent that we do not realize income or choose not to retain after-tax realized capital gains, we will have a greater need for additional capital to fund our investments and operating expenses.
- Investment in foreign securities could result in additional risks.

Risks related to this offering.

- Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.
- We will have discretion over the use of proceeds of this offering.
- Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term.
- The Board of Directors intends to grant stock options to our employees pursuant to the Company's Equity Incentive Plan. When exercised, these options may have a dilutive effect on existing shareholders.
- You have no right to require us to repurchase your shares.

Other Information

Our website is www.TinyTechVC.com and is not incorporated by reference into this Prospectus. We make available free of charge through our website the following materials (which are not incorporated by reference unless specifically stated in this Prospectus) as soon as reasonably practicable after filing or furnishing them to the SEC:

- our annual report on Form 10-K;
- our quarterly reports on Form 10-Q;
- our current reports on Form 8-K; and
- amendments to those reports.

The Offering

Common Stock offered	We may offer, from time to time, up to a total of 2,700,000 shares of our Common Stock available under this Prospectus on terms to be determined at the time of the offering. Our Common Stock may be offered at prices and on terms to be set forth in one or more Prospectus Supplements. The offering price per share of our Common Stock net of underwriting commissions or discounts will not be less than the net asset value per share of our Common Stock.
Use of proceeds	Although we will make initial investments exclusively in tiny technology, we can make follow-on investments in non-tiny technology companies currently in our portfolio. Further, while considering venture capital investments, we may invest the proceeds in U.S. government and agency securities, which may yield less than our operating expense ratio. We expect to invest or reserve for potential follow-on investment the net proceeds of any sale of shares under this Prospectus within two years from the completion of such sale. 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. For this purpose, we do not expect to reserve for follow-on investments in any particular portfolio holding more than the greater of twice the investment to date in that portfolio holding 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.
Dividends and Distributions	To the extent that we retain any net capital gain, we may make deemed capital gain dividends. If we do make a deemed capital gain dividend, you will not receive a cash distribution, but instead you will receive a tax credit and increase in basis equal to your proportionate share of the tax paid by us on your behalf. We currently intend to retain our net capital gains for investment and pay the associated federal corporate income tax. We may change this policy in the future. See "Taxation."
Nasdaq Global Market symbol	TINY

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 of the offering for the 2,700,000 shares registered pursuant to this Prospectus, assuming that we incur the estimated offering expenses. The price per share used in this calculation was the closing price of our Common Stock on May 28, 2008 of $7.98.

Shareholder Transaction Expenses	
Sales Load(1) (as a percentage of offering price)	N/A
Offering Expenses (as a percentage of offering price)	1.16%
Annual Expenses (as a percentage of net assets attributable to Common Stock)	
Management Fees(2)	N/A
Other Expenses(3)	
Salaries and Benefits(4)	5.58%
Administration and Operations(5)	1.49%
Professional Fees	.54%
Total Annual Expenses(6)	7.61%

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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
$859	$2,288	$3,643	$6,731

* This example includes non-cash, stock-based compensation. Excluding the non-cash, stock-based compensation, you would pay expenses of $554 in 1 year, $1,439 in 3 years, $2,333 in 5 years and $4,616 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) In the event that the shares of Common Stock to which this Prospectus relates are sold to or through underwriters, a corresponding Prospectus Supplement will disclose the sales load.

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

(3) "Other Expenses" are based on projected amounts for the fiscal year ended December 31, 2008.

(4) "Salaries and Benefits" includes non-cash stock-based compensation expense of $5,040,687. 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" totals $3,766,636 or 2.39 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 $5,040,687. See Footnote (4) above. Cash-based total annual expenses as a percentage of net assets attributable to Common Stock is 4.42 percent.

SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

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, 2007, 2006, 2005, 2004 and 2003, 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.

BALANCE SHEET DATA

Financial Position as of December 31:

	2007	2006	2005	2004	2003
Total assets	$ 142,893,332	$ 118,328,590	$ 132,938,120	$ 79,361,451	$ 44,115,128
Total liabilities	$ 4,529,988	$ 4,398,287	$ 14,950,378	$ 4,616,652	$ 3,432,390
Net assets	$ 138,363,344	$ 113,930,303	$ 117,987,742	$ 74,744,799	$ 40,682,738
Net asset value per outstanding share	$ 5.93	$ 5.42	$ 5.68	$ 4.33	$ 2.95
Cash dividends paid	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Cash dividends paid per outstanding share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Shares outstanding, end of year	23,314,573	21,015,017	20,756,345	17,248,845	13,798,845

Operating Data for Year Ended December 31:

	2007	2006	2005	2004	2003
Total investment income	$ 2,705,636	$ 3,028,761	$ 1,540,862	$ 637,562	$ 167,785
Total expenses[1]	$ 14,533,179	$ 10,641,696	$ 7,006,623	$ 4,046,341	$ 2,731,527
Net operating (loss) income	$ (11,827,543)	$ (7,612,935)	$ (5,465,761)	$ (3,408,779)	$ (2,563,742)
Total tax expense (benefit) [2]	$ 87,975	$ (227,355)	$ 8,288,778	$ 650,617	$ 13,761
Net realized income (loss) from investments	$ 30,162	$ 258,693	$ 14,208,789	$ 858,503	$ (984,925)
Net decrease (increase) in unrealized depreciation on investments	$ 5,080,936	$ (4,418,870)	$ (2,026,652)	$ 484,162	$ 343,397
Net (decrease) increase in net assets resulting from operations	$ (6,716,445)	$ (11,773,112)	$ 6,716,376	$ (2,066,114)	$ (3,205,270)
(Decrease) Increase in net assets resulting from operations per average outstanding share	$ (0.30)	$ (0.57)	$ 0.36	$ (0.13)	$ (0.28)

[1]Included in total expenses are the following profit-sharing expenses: $0 in 2007, $50,875 in 2006; $1,796,264 in 2005; $311,594 in 2004 and $0 in 2003. Also included in total expenses is non-cash, stock-based compensation expense of $8,050,807 in 2007 and $5,038,956 in 2006. There was no stock-based compensation expense in 2005, 2004, or 2003.

[2]Included in total tax expense are the following taxes paid by the Company on behalf of shareholders: $0 in each of 2007 and 2006, $8,122,367 in 2005, $0 in each of 2004 and 2003.

SELECTED QUARTERLY DATA (UNAUDITED)

	2008 1st Quarter
Total investment income	$ 576,302
Net operating loss	$ (2,480,618)
Net decrease in net assets resulting from operations	$ (3,289,035)
Net decrease in net assets resulting from operations per average outstanding share	$ (0.14)

	2007			
	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Total investment income	$ 652,498	$ 637,701	$ 743,414	$ 672,023
Net operating loss	$ (2,667,118)	$ (2,891,667)	$ (3,117,595)	$ (3,151,163)
Net (decrease) increase in net assets resulting from operations	$ (6,390,160)	$ (4,093,644)	$ 604,237	$ 3,163,122
Net (decrease) increase in net assets resulting from operations per average outstanding share	$ (0.30)	$ (0.19)	$ 0.03	$ 0.16

SELECTED QUARTERLY DATA (UNAUDITED)
(continued)

	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 decrease in net assets resulting from operations	$	(1,653,990)	$	(1,282,997)	$	(2,588,092)	$	(6,248,033)
Net decrease in net assets resulting from operations per average outstanding share	$	(0.08)	$	(0.06)	$	(0.12)	$	(0.31)

	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 (decrease) increase 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 CONDITION AND RESULTS OF OPERATIONS

The information in this section should be read with the Company's unaudited March 31, 2008 Consolidated Financial Statements and the Company's audited 2007 Consolidated Financial Statements and notes thereto.

In 1994, we made our first tiny technology investment. From August 2001 through March 31, 2008, all 39 of our initial investments have been in tiny technology. From August 2001 through March 31, 2008, we have invested a total (before any subsequent write-ups, write-downs or dispositions) of $93,070,524 in tiny technology.

We currently have 31 active tiny technology companies in our portfolio, including one tiny technology investment made prior to 2001. At March 31, 2008, from first dollar in, the average and median holding periods for these 31 active tiny technology investments were 3.16 years and 2.87 years, respectively.

Two of our portfolio companies have been considering with their advisors the possibility of filing for initial public offerings (IPOs) in 2008. There can be no assurance that either of them will file for an IPO in 2008, and a variety of factors, including stock market and general business conditions, could lead either or both of them to terminate such considerations.

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**	**YTD 3/31/08**
Total Incremental Investments	$ 489,999	$ 6,240,118	$ 3,812,600	$ 14,837,846	$ 16,251,339	$ 24,408,187	$ 20,595,161	$ 6,435,274
No. of New Investments	1	7	5	8	4	6	7	1
No. of Follow-On Investment Rounds	0	1	5	21	13	14	20	7
No. of Rounds Led	0	1	0	2	0	7	3	2
Average Dollar Amount - Initial	$ 489,999	$ 784,303	$ 437,156	$ 911,625	$ 1,575,000	$ 2,383,424	$ 1,086,441	$ 244,500
Average Dollar Amount - Follow-On	N/A	$ 750,000	$ 325,364	$ 359,278	$ 765,488	$ 721,974	$ 649,504	$ 884,396

We value our private venture capital investments each quarter as determined in good faith by our Valuation Committee, a committee of 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 through March 31, 2008, the Company recorded the following gross write-ups in privately held securities as a percentage of net assets at the beginning of the year ("BOY"), gross write-downs in privately held securities as a percentage of net assets at the beginning of the year, and net write-ups/(write-downs) in privately held securities as a percentage of net assets at the beginning of the year.

	2001	2002	2003	2004	2005	2006	200
Net Asset Value, BOY	$ 31,833,475	$ 24,334,770	$ 27,256,046	$ 40,682,738	$ 74,744,799	$ 117,987,742	$ 113,9
Gross Write-Downs During Year	$ (2,532,730)	$ (5,400,005)	$ (1,256,102)	$ (5,711,229)	$ (3,450,236)	$ (4,211,323)	$ (7,8
Gross Write-Ups During Year	$ 1,528,866	$ 285	$ 847,578	$ 6,288,397	$ 23,485,176	$ 279,363	$ 11,6
Gross Write-Downs as a Percentage of Net Asset Value, BOY	-7.96%	-22.19%	-4.61%	-14.04%	-4.62%	-3.57%	
Gross Write-Ups as a Percentage of Net Asset Value, BOY	4.80%	0.00%	3.11%	15.46%	31.42%	0.24%	
Net Write-Downs/Write-Ups as a Percentage of Net Asset Value, BOY	-3.15%	-22.19%	-1.49%	1.42%	26.8%	-3.33%	

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, 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.

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 March 31, 2008, $83,097,863, or 60.9 percent, of our net assets at fair value consisted of private venture capital investments, net of unrealized depreciation of $915,914. At December 31, 2007, $78,110,384, or 56.5 percent, of our net assets at fair value consisted of private venture capital investments, net of unrealized depreciation of $4,567,144.

Since our investment in Otisville in 1983 through March 31, 2008, we have made a total of 81 venture capital investments, including four private placement investments in securities of publicly traded companies. We have exited 47 of these 81 investments, realizing total proceeds of $143,895,288 on our invested capital of $56,349,559. As measured from first dollar in to last dollar out, the average and median holding periods for these 47 investments were 3.77 years and 3.20 years, respectively. As measured by the 165 separate rounds of investment within these 47 investments, the average and median holding periods for the 165 separate rounds of investment were 2.93 years and 2.64 years, respectively.

Results of Operations

Three months ended March 31, 2008, as compared to the three months ended March 31, 2007

In the three months ended March 31, 2008, and March 31, 2007, we had net decreases in net assets resulting from operations of $3,289,035 and 6,390,160, respectively.

Investment Income and Expenses:

We had net operating losses of $2,480,618 and $2,667,118 for the three months ended March 31, 2008, and March 31, 2007, respectively. The variation in these results is primarily owing to the changes in investment income and operating expenses, including non-cash expenses of $1,466,980 in 2008 and $1,690,181 in 2007 associated with the granting of stock options. During the three months ended March 31, 2008, and 2007, total investment income was $576,302 and $652,498, respectively. During the three months ended March 31, 2008, and 2007, total operating expenses were $3,056,920 and $3,319,616, respectively.

During the three months ended March 31, 2008, as compared with the same period in 2007, 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, 2008, our average holdings of such securities were $57,481,316, as compared with $59,727,657 during the three months ended March 31, 2007.

Operating expenses, including non-cash, stock-based compensation expense, were $3,056,920 and $3,319,616 for the three months ended March 31, 2008, and March 31, 2007, respectively. The decrease in operating expenses for the three months ended March 31, 2008, as compared to the three months ended March 31, 2007, was primarily owing to decreases in salaries, benefits and stock-based compensation expense and to decreases in administration and operations expense, professional fees and directors' fees and expenses. Salaries, benefits and stock-based compensation expense decreased by $101,471, or four percent, through March 31, 2008, as compared to March 31, 2007, primarily as a result of a decrease in non-cash expense of $223,201 associated with the Harris & Harris Group, Inc. 2006 Equity Incentive Plan (the "Stock Plan"), offset by an increase in salaries and benefits owing to an increase in our head count as compared with that of the same period in 2007. At March 31, 2008, we had 13 full-time employees, as compared with 10 full-time employees and one part-time employee at March 31, 2007. While the non-cash, stock-based compensation expense for the Stock Plan increased our operating expenses by $1,466,980, 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. Administration and operations expense decreased by $79,010, or 20.7 percent, through March 31, 2008, as compared to March 31, 2007, primarily as a result of a decrease in our directors' and officers' liability insurance expense and decreases in the cost of the annual report and proxy-related expenses. Professional fees decreased by $43,963, or 24.1 percent, for the three months ended March 31, 2008, as compared with the same period in 2007, primarily as a result of a reduction in the cost of our annual compliance program audit and a reduction in certain accounting fees.

Realized Income and Losses from Investments:

During the three months ended March 31, 2008, we realized net losses on investments of $5,014,870, as compared with realized net losses on investments of $674 during the three months ended March 31, 2007.

During the three months ended March 31, 2008, we realized net losses of $5,014,870, consisting primarily of a realized loss of $1,326,072 on our investment in Chlorogen, Inc., and a realized loss of $3,688,581 on our investment in NanoOpto Corporation. During the first of quarter of 2008, we received a payment of $105,714 from the NanoOpto Corporation bridge note.

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

Net Unrealized Appreciation and Depreciation of Portfolio Securities:

During the three months ended March 31, 2008, net unrealized depreciation on total investments decreased by $4,252,651, or 108.3 percent, from net unrealized depreciation of $3,926,484 at December 31, 2007, to net unrealized appreciation of $326,167 at March 31, 2008. Net unrealized depreciation on total investments increased by $3,637,463, or 40.4 percent, during the three months ended March 31, 2007, from net unrealized depreciation of $9,007,420 at December 31, 2006, to net unrealized depreciation of $12,644,883 at March 31, 2007.

During the three months ended March 31, 2008, net unrealized depreciation on our venture capital investments decreased by $3,651,203, from $4,567,144 to $915,941, owing primarily to net realized losses of $1,326,072 and $3,688,581 on our investments in Chlorogen, Inc., and NanoOpto Corporation, respectively, and increases in the valuations of our investments in D-Wave Systems, Inc., of $11,704, Exponential Business Development Company of $193 and NeoPhotonics Corporation of $457, offset by decreases in the valuations of our investments in Ancora Pharmaceuticals, Inc., of $52,075, BridgeLux, Inc., of $1,345, Crystal-IS, Inc., of $283, Kereos, Inc., of $38,893, Mersana Therapeutics, Inc., of $5,406, Metabolon, Inc., of $734,465 and Questech Corporation of $462,437. We also had a decrease owing to foreign currency translation of $80,903 on our investment in D-Wave Systems, Inc. Unrealized appreciation on our U.S. government securities portfolio increased from $640,660 at December 31, 2007, to $1,242,108 at March 31, 2008.

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 securities portfolio decreased from $556,451 at December 31, 2006, to $360,862 at March 31, 2007.

Results of Operations

Years Ended December 31, 2007, 2006, and 2005

During the years ended December 31, 2007, 2006, and 2005, we had net (decreases) increases in net assets resulting from operations of $(6,716,445), $(11,773,112), and $6,716,376, respectively.

Investment Income and Expenses:

During the years ended December 31, 2007, 2006, and 2005, we had net operating losses of $11,827,543, $7,612,935, and $5,465,761, respectively. The variation in these results is primarily owing to the changes in investment income and operating expenses, including non-cash expense of $8,050,807 in 2007 and $5,038,956 in 2006 associated with the granting of stock options. During the years ended December 31, 2007, 2006, and 2005, total investment income was $2,705,636, $3,028,761, and $1,540,862, respectively. During the years ended December 31, 2007, 2006, and 2005, total operating expenses were $14,533,179, $10,641,696, and $7,006,623, respectively.

During 2007, as compared with 2006, investment income decreased from $3,028,761 to $2,705,636, reflecting a decrease in our average holdings of U.S. government and agency securities throughout the period. During the twelve months ended December 31, 2007, our average holdings of such securities were $62,184,565, as compared with $69,506,136 at December 31, 2006.

Operating expenses, including non-cash, stock-based compensation expenses, were $14,533,179 and $10,641,696 for the twelve months ended December 31, 2007, and December 31, 2006, respectively. The increase in operating expenses for the twelve months ended December 31, 2007, as compared to the twelve months ended December 31, 2006, was primarily owing to increases in salaries, benefits and stock-based compensation expenses and to increases in administration and operations expense, professional fees and directors' fees and expenses. Salaries, benefits and non-cash, stock-based compensation expense increased by $3,502,053, or 44.1 percent, through December 31, 2007, as compared to December 31, 2006, primarily as a result of an increase in non-cash expense of $3,011,851 through December 31, 2007, associated with the Harris & Harris Group, Inc. 2006 Equity Incentive Plan (the "Stock Plan"). While the non-cash, stock-based, compensation expense for the Stock Plan increased our operating expenses by $8,050,807, 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. Salaries and benefits also increased for the twelve months ended December 31, 2007, owing to an increase in our headcount as compared with that of the same period in 2006. At December 31, 2007, we had 13 full-time employees, as compared with 10 full-time employees and one part-time employee at December 31, 2006. Administration and operations expense increased by $182,573, or 14.6 percent, for the twelve months ended December 31, 2007, as compared with the same period in 2006, owing to an increase in Nasdaq Global Market fees related to the increase in our number of outstanding shares and increased office-related and travel expenses related to the increase in headcount. Professional fees increased by $165,083, or 22.4 percent, primarily as a result of an increase in legal fees, an increase in audit fees and corporate consulting costs for the audit of our compliance program. Directors' fees and expenses increased by $94,310, or 27.7 percent, primarily as a result of additional meetings held in the period ended December 31, 2007, as compared with the period ended December 31, 2006, as well as an increase in the monthly retainers paid to committee chairs and to the Lead Independent Director.

During 2006, investment income increased, reflecting an increase in our average holdings of U.S. government and agency securities, as our average holdings increased from $50,620,881 at December 31, 2005, to $69,506,136 at December 31, 2006, and as a result of an increase in interest rates during the year. During 2005, investment income increased, reflecting 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, 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 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 was 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 director and officer 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 on Investments:

During the years ended December 31, 2007, 2006, and 2005, we had net realized income from investments of $30,162, $258,693, and $14,208,789, 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, 2007, 2006, and 2005, realized income from investments, before taxes, was $118,137, $31,338, and $23,862,037, respectively. Income tax expense (benefit) for the years ended December 31, 2007, 2006, and 2005 was $87,975, $(227,355), and $9,653,248, respectively.

During the year ended December 31, 2007, we realized net gains of $118,137, consisting primarily of proceeds received from the sale of our interest in AlphaSimplex Group, LLC, and income from our investment in Exponential Business Development Company. During the year ended December 31, 2007, we recognized tax expense of $87,975, consisting of $74,454 of interest and penalties related to our 2005 tax returns and $13,521 in current year expense.

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 Company, 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 had 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.

Net Unrealized Appreciation and Depreciation on Investments:

During the year ended December 31, 2007, net unrealized depreciation on total investments decreased by $5,080,936.

During the years ended December 31, 2006, and 2005, net unrealized depreciation on total investments increased by $4,418,870 and $2,026,652, respectively.

During the year ended December 31, 2007, net unrealized depreciation on our venture capital investments decreased by $3,883,825, or 46.0 percent, from $8,450,969 to $4,567,144, owing primarily to increases in the valuations of our investments in BridgeLux, Inc., of $3,699,529, Crystal IS, Inc., of $13,819, CSwitch Corporation of $48,935, D-Wave Systems, Inc., of $202,408, Exponential Business Development Company of $2,026, Innovalight, Inc., of $3,218,216, Kovio, Inc., of $125,000, Mersana Therapeutics, Inc., of $118,378, NanoGram Corporation of $2,437,136, NeoPhotonics Corporation of $2,160, SiOnyx, Inc., of $899,566, Solazyme, Inc., of $612,291 and Zia Laser, Inc., of $6,329, offset by decreases in the valuations of our investments in Ancora Pharmaceuticals, Inc., of $100,561, Chlorogen, Inc., of $1,326,073, Evolved Nanomaterial Sciences, Inc., of $2,800,000, Kereos, Inc., of $1,340,257, Nanomix, Inc., of $459,772, NanoOpto Corporation of $1,369,885, Polatis, Inc., of $9,534 and Questech Corporation of $404,712. We also had an increase owing to foreign currency translation of $307,636 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 unrealized appreciation of $640,660 at December 31, 2007.

The net increase in unrealized depreciation on our venture capital investments in 2006 was owing primarily to decreases in the valuations 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 to increases 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 was owing to appreciation in our investment in NeuroMetrix, Inc., prior to the sale of our interest in it as well as to 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 Corporation, 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 realizations of losses on our investments in Agile Materials and Technologies, Inc., Experion Systems, Inc., Nanotechnologies, Inc., and Optiva, Inc.

Financial Condition

March 31, 2008

At March 31, 2008, our total assets and net assets were $140,772,639 and $136,541,289, respectively. At December 31, 2007, they were $142,893,332 and $138,363,344, respectively.

At March 31, 2008, net asset value per share ("NAV") was $5.86, as compared with $5.93 at December 31, 2007. At March 31, 2008, and December 31, 2007, our shares outstanding were 23,314,573.

Significant developments in the three months ended March 31, 2008, included an increase in the value of our venture capital investments of $4,987,479 and a decrease in the value of our investment in U.S. government obligations of $6,604,493. The increase in the value of our venture capital investments, from $78,110,384 at December 31, 2007, to $83,097,863 at March 31, 2008, resulted primarily from one new and seven follow-on investments and by a net increase of $3,651,203 in the net value of our previous venture capital investments. The decrease in the value of our U.S. government obligations, from $60,193,593 at December 31, 2007, to $53,589,100 at March 31, 2008, is primarily owing to the use of funds for investments totaling $6,435,274 and net operating expenses.

The following table is a summary of additions to our portfolio of venture capital investments made during the three months ended March 31, 2008:

New Investment	Amount
PolyRemedy, Inc.	$ 244,500
Follow-on Investment	
Adesto Technologies Corporation	$1,052,174
BridgeLux, Inc.	$ 1,000,001
D-Wave Systems, Inc.	$ 736,019
Metabolon, Inc.	$ 1,000,000
Nextreme Thermal Solutions, Inc.	$ 377,580
Phoenix Molecular Corporation	$ 25,000
Solazyme, Inc.	$ 2,000,000
Total	$ 6,435,274

The following tables summarize the values of our portfolios of venture capital investments and U.S. government obligations, as compared with their cost, at March 31, 2008, and December 31, 2007:

	March 31, 2008	December 31, 2007
Venture capital investments, at cost	$ 84,013,804	$ 82,677,528
Net unrealized depreciation[(1)]	915,941	4,567,144
Venture capital investments, at value	$ 83,097,863	$ 78,110,384

		March 31, 2008		December 31, 2007
U.S. government obligations, at cost	$	52,346,992	$	59,552,933
Net unrealized appreciation[1]		1,242,108		640,660
U.S. government obligations, at value	$	53,589,100	$	60,193,593

[1]At March 31, 2008, and December 31, 2007, the net accumulated unrealized appreciation (depreciation) on investments was $326,167 and $(3,926,484), respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at March 31, 2008, and December 31, 2007.

Category	**March 31, 2008**	**December 31, 2007**