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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.

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
-----	-----	-----	-----
\$1,107	\$1,957	\$2,816	\$4,998

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 5 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.

USE OF PROCEEDS

We estimate the total net proceeds of the offering of 3,050,000 shares to be up to \$37,189,030 (\$42,818,385 if the over-allotment option is exercised), based on the last reported price for our Common Stock on August 2, 2005 of \$13.09 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. However, there can be no assurances as to the amount of proceeds until we determine the offering price and amount of the shares to be sold.

We expect to invest or reserve for potential follow-on investment the net proceeds of the offering within two years from the completion of the offering. Reserves for follow-on investments referred to above 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. 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 are likely to 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. If we pay operating expenses from the proceeds, it will reduce the net proceeds of the offering that we will have available for investment.

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PRICE RANGE OF COMMON STOCK

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

The following table sets forth for the quarters indicated, the high and

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ThinkEquity Partners LLC....	
Punk, Ziegel & Company, L.P.	----
Total.....	====

The underwriting agreement provides that the several obligations of the underwriters are subject to certain conditions precedent, including the absence of any significant negative change in our business and the receipt of certain certificates, opinions and letters from us and our attorneys and independent registered public accounting firm. The nature of the underwriters' obligation is such that they are committed to purchase all shares of Common Stock offered hereby if any of the shares are purchased.

We have granted the underwriters the option, exercisable for 30 days after the date of this Prospectus Supplement, to purchase up to an aggregate of 457,500 shares of our Common Stock at the public offering price, less the underwriting discounts and commissions set forth on the cover page of this Prospectus Supplement. The underwriters may exercise this option solely to cover unfilled customer orders, if any, in connection with the sale of our Common Stock.

The following table summarizes the underwriting discounts and commissions to be paid by us to the underwriters for each share of our Common Stock. This information is presented assuming either no exercise or full exercise of the underwriters' option to purchase additional shares of our Common Stock.

Paid by Harris & Harris Group, Inc.		
	No	Full
	Exercise	Exercise
	-----	-----
Per Share	\$	\$
Total.	\$	\$

We have been advised that the underwriters propose to offer the shares of Common Stock to the public at the public offering price set forth on the cover page of this Prospectus Supplement and to some dealers at that price less a concession not in excess of \$ per share. The underwriters may allow, and these dealers may re-allow, a concession not in excess of \$ per share to certain other dealers. The offering of the shares of Common Stock is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of this offering without notice. The underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

We and our most senior executive officers have agreed that for a period of 90 days after the date of this Prospectus Supplement, we and they will not, without the prior written consent of ThinkEquity Partners LLC, directly or indirectly: offer, sell, contract to sell or otherwise dispose of, any shares of our Common Stock, or any securities convertible into or exercisable or exchangeable for shares of our Common Stock, or grant any rights, options or warrants to purchase shares of our Common Stock; provided that following the sale by each underwriter of its allotment of shares, we may, without the prior written consent of the underwriters, sell shares of Common Stock that are

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registered under the Registration Statement and the accompanying Prospectus but are not being sold pursuant to this Prospectus Supplement. In the event that either (1) during the last 17 days of the lock-up period, we release earnings results or announce material news or a material event relating to us, or (2)

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prior to the expiration of the lock-up period we announce that we will release earnings results during the 15-day period beginning on the last day of the initial lock-up period, the expiration of the lock-up period will be extended until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

In connection with this offering, the underwriters may purchase and sell shares of Common Stock in the open market. These transactions may include short sales and stabilizing transactions. Short sales involve sales of Common Stock in excess of the number of shares to be purchased by the underwriters in this offering, which creates a short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered short position involve either purchases in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of Common Stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for, or purchases of, shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the Common Stock. As a result, the price of the Common Stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters without notice at any time. These transactions may be effected on the Nasdaq National Market, or otherwise.

A Prospectus, including a Prospectus Supplement, in electronic format may be made available on the websites by one or more of the underwriters, or selling group members, if any, participating in the offering and one or more of the underwriters participating in this offering may distribute a Prospectus, including a Prospectus Supplement, electronically.

We have agreed to indemnify each of the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments which such underwriters may be required to make in respect thereof.

LEGAL MATTERS

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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 877-TINY TECH. 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 Securities and Exchange Commission's ("SEC") 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 crime.

This Prospectus may not be used to consummate sales of Common Stock by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

The date of the Prospectus is _____, 2005.

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. (R) "Harris & Harris Group, Inc. (R)" is a registered service mark. This Prospectus also includes trademarks owned by other persons.

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PROSPECTUS SUMMARY

This summary highlights information that is described more fully

- . 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 three 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;
- . increase the types of tiny technology companies in our portfolio;
- . increase the percentage of our total assets invested in tiny technology;
- . lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations; 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; 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 the present, all 24 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes investments in a total of 26 companies, 21 of which we consider to be involved in tiny technology. 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.

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

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holders of Common Stock (usually the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature. In many cases, our portfolio investments include a dividend right payable in kind (which

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increases our participation in the portfolio company) or potentially in cash. In-kind distributions are primarily made in additional shares of convertible preferred stock, and we would expect to continue to invest in convertible securities.

Tiny Technology

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 and devices that address broad markets, including instrumentation, 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 accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces, fast acting painkillers and certain pharmaceutical therapeutics.

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 9 for a more detailed discussion of the risks of investing in our Common Stock.

Risks related to the companies in our portfolio.

- . 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

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property that currently have few or no proven commercial applications.

- . Our portfolio companies may not successfully develop their products.
- . Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

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- . Our portfolio companies may not currently have the ability to manufacture nanotechnology-enabled products in volume and will not be able to sell products without developing volume manufacturing capabilities.
- . Even if our portfolio companies develop commercially acceptable products, they may not be able to manufacture their products in a profitable, cost-effective manner.
- . Our portfolio companies may not successfully market their products.
- . Our portfolio companies will need to achieve commercial acceptance of their products to obtain product revenue and achieve profitability and may not be able to do so.
- . Unfavorable economic conditions could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.
- . The value of our portfolio could be adversely affected if the technologies utilized by our portfolio companies are found to cause health or environmental risks.
- . Public perception of ethical and social issues regarding nanotechnology may limit or discourage the use of nanotechnology-enabled products, which could reduce our portfolio companies' revenues and harm our business.

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 our portfolio companies complete initial public offerings, the returns on our investments may 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.
- . Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.

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- . We may be obligated to pay substantial amounts under our profit-sharing plan.
- . Although we have specialized in tiny technology since 2001, as of June 30, 2005 approximately 50 percent of the net asset value attributable to our venture capital investment portfolio, or 29 percent of our net asset value, is concentrated in one company, NeuroMetrix, Inc. We initially invested in 1996 as a seed investor in NeuroMetrix, Inc., which is not a tiny technology company.

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- . 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.
- . 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 may exceed the return on the assets the proceeds are used to acquire, in which case the use of leverage will 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.
- . 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.
- . If we are unable to remediate a material weakness previously identified in our internal controls, or have other significant deficiencies or material weaknesses, our ability to report our financial results on a timely and accurate basis may be adversely affected.
- . We expect that the market price of our Common Stock will be volatile.
- . Quarterly results fluctuate and are not indicative of future quarterly performance.

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- . To the extent that we do not realize income or retain after-tax realized capital gains, we may 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.

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- . Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term, and currently trade at a substantial premium over net asset value that may not be sustainable over the long term.
- . Our former independent public accountant, Arthur Andersen LLP, no longer practices, and you may be unable to exercise effective remedies against it in any legal action.
- . 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 reports 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 3,550,000 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

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without developing volume manufacturing capabilities.

The manufacture of our portfolio companies' potential nanotechnology-enabled products is unproven and will require long lead times to establish adequate facilities. Some of the potential products may require our portfolio companies to manufacture large volumes of materials in order to meet commercial demand that are substantially larger than their current capabilities. Our portfolio companies may not be able to develop commercial scale manufacturing capabilities or produce products cost effectively. If our portfolio companies are unable to manufacture economically or to produce their products in commercial quantities that meet acceptable performance and quality specifications, we could suffer financial losses in our portfolio.

Even if our portfolio companies develop commercially acceptable products, they may not be able to manufacture their products in a profitable, cost effective manner.

Even if the technology and products of our portfolio companies gain commercial acceptance, they may not be able to manufacture their products in a profitable manner. Even if our portfolio companies are able to manufacture their products on a commercial scale, the cost of manufacturing their products may be higher than they expect. If manufacturing costs and royalty obligations are not significantly less than the prices at which they can sell their products, it would lead to financial losses in our portfolio.

Our portfolio companies may not successfully market their products.

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

Our portfolio companies will need to achieve commercial acceptance of their products to obtain product revenue and achieve profitability and may not be able to do so.

Even if the products of our portfolio companies are technologically feasible, these early-stage companies may not successfully develop commercially viable products on a timely basis, if at all. It could be at least several years before many of our portfolio companies develop initial products that are commercially available and, during this period, superior competitive technologies may be introduced or customer needs may change resulting in some products being unsuitable for commercialization. The revenue growth and achievement of profitability by our portfolio companies will depend substantially on their ability to introduce new products into the marketplace that are widely accepted by customers. If they are unable to achieve commercial acceptance of their products in a cost-effective manner, the value of our portfolio could be significantly adversely affected.

Unfavorable economic conditions could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.

Most of the companies in which we have made or will make investments are susceptible to economic slowdowns or recessions. An economic slowdown or adverse capital or credit market conditions may affect the ability of a company in our portfolio to raise additional capital from venture capital or other sources or to engage in a liquidity event such as an initial public offering or merger. Adverse economic, capital or credit market conditions may lead to financial losses in our portfolio.

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requirements. Our obligation to disclose this information could hinder our ability to invest in some portfolio companies. Additionally, other current and future regulations may make us less attractive as a potential investor than a competitor not subject to the same regulations.

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

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (3) attempt to preserve or enhance the value of our investment. Recently, "pay to play" provisions have become common in venture capital transactions. These provisions require proportionate investment in subsequent rounds of financing in order to preserve preferred rights such as anti-dilution protection or even to prevent preferred shares from being converted to common shares.

We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation, or may cause us to lose some or all preferred rights pursuant to "pay to play" provisions. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities or because we are inhibited by compliance with business development company requirements or the desire to maintain our tax status.

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.

Use of debt or preferred stock as a source of capital entails two primary risks. The first is the risk of leverage, which is the use of debt to increase the pool of capital available for investment purposes. The use of debt leverages our available common equity capital, magnifying the impact on net asset value of changes in the value of our investment portfolio. For example, a business development company that uses 33 percent leverage (that is, \$50 of leverage per \$100 of common equity) will show a 1.5 percent increase or decline in net asset

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value for each 1 percent increase or decline in the value of its total assets. The second risk is that the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, thereby diminishing rather than enhancing the return to common shareholders. If we issue preferred shares, the common shareholders would bear the cost of this leverage. To the extent that we utilize debt or preferred stock financing for any purpose, these two risks would likely make our total return to common shareholders more volatile. In addition, we might be required to sell investments, in order to meet dividend, interest or principal payments, when it may be disadvantageous for us to do so.

As provided in the 1940 Act and subject to some exceptions, we can issue

particular. These new or changed laws, regulations and standards are subject to varying interpretations in many cases because of their lack of specificity, and as a result, their application in practice may evolve over time, which may well result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have and will continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment has required the commitment of significant financial and managerial resources. Moreover, even though BDCs are not mutual funds, they must comply with several of the new regulations applicable to mutual funds, such as the requirement for the implementation of a comprehensive compliance program and the appointment of a Chief Compliance Officer. Further, our Board members, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified Board members and executive officers, which could harm our business, and we have significantly increased both our coverage under, and the related expense, for directors' and officers' liability insurance. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, our reputation may be harmed. Also, as business and financial practices continue to evolve, they may render the regulations under which we operate less appropriate and more burdensome than they were when originally imposed. This increased regulatory burden is causing us to incur significant additional expenses and is time consuming for our management, which could have a material adverse effect on our financial performance.

If we are unable to remediate a material weakness previously identified in our internal controls, or have other significant deficiencies or material weaknesses, our ability to report our financial results on a timely and accurate basis may be adversely affected.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Effective internal controls are necessary for us to provide reliable financial reports.

We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. As noted in Management's Report on Internal Control Over Financial Reporting included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2004, we determined that we had a material weakness with respect to maintaining effective controls over the accuracy of the Financial Highlights ratios based on an audit adjustment to the line item referred to as "Total return based on: Net asset value" in the Company's Financial Highlights section of the financial statements for the year ended December 31, 2004. Specifically, our procedures for preparing the Financial Highlights ratios were not sufficiently detailed to detect errors in the underlying calculations.

We have implemented the following changes to our internal control over financial reporting during the first and second quarters of 2005:

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control and may not be directly related to our operating performance. These factors include the following:

- . price and volume fluctuations in the overall stock market from time to time;
- . significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
- . volatility resulting from trading in derivative securities related to our Common Stock may include puts, calls, long-term equity anticipation securities, or LEAPs, or short trading positions;
- . changes in regulatory policies or tax guidelines with respect to business development companies or regulated investment companies;
- . actual or anticipated changes in our net asset value or fluctuations in our operating results or changes in the expectations of securities analysts;
- . announcements regarding any of our portfolio companies;
- . announcements regarding developments in the nanotechnology field in general;
- . announcements regarding government funding and initiatives related to the development of nanotechnology;

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- . general economic conditions and trends; and/or
- . departures of key personnel.

We will not have control over many of these factors but expect that our stock price may be influenced by them. As a result, our stock price may be volatile and you may lose all or part of your investment.

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

Our quarterly operating results fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we and our portfolio companies encounter competition in our markets and general economic and capital markets conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

To the extent that we do not realize income or retain after-tax realized capital gains, we may have a greater need for additional capital to fund our investments and operating expenses.

As a RIC, we must annually distribute at least 90 percent of our investment company taxable income as a dividend and may either distribute or retain our realized net capital gains from investments. As a result, these earnings may not be available to fund investments. If we fail to generate net realized capital gains or to obtain funds from outside sources, it would have a material adverse effect on our financial condition and results of operations as

well as our ability to make follow-on and new investments. Because of the structure and objectives of our business, we generally expect to experience net operating losses and rely on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. These sales are unpredictable and may not occur. In addition, as a business development company, we are generally required to maintain a ratio of at least 200 percent of total assets to total borrowings, which may restrict our ability to borrow to fund these requirements. Lack of capital could curtail our investment activities or impair our working capital.

Investment in foreign securities could result in additional risks.

The Company may invest in foreign securities, although we currently have no investments in foreign securities. If we invest in securities of foreign issuers, we may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, social, political and economic instability, differences in securities regulation and trading, expropriation or nationalization of assets, and foreign taxation issues. In addition, changes in government administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of our securities and could favorably or unfavorably affect our operations. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. Any foreign investments made by us must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments.

Risks related to this offering.

Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.

Our investment objective and strategies result in a high degree of risk in our investments and may result in losses in the value of our investment portfolio. Our investments in portfolio companies are highly speculative and, therefore, an investor in our Common Stock may lose his or her entire investment. The value of our Common Stock may decline and may be affected by numerous market conditions, which could result in the loss

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of some or all of the amount invested in our Common Stock. The securities markets frequently experience extreme price and volume fluctuations which affect market prices for securities of companies generally, and technology and very small capitalization companies in particular. Because of our focus on the technology and very small capitalization sectors, and because we are a small capitalization company ourselves, our stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the Internet and information technology, life sciences, nanotechnology, tiny technology, materials science and other high technology industries, may also affect the price of our Common Stock.

We will have discretion over the use of proceeds of this offering.

We will have flexibility in applying the proceeds of this offering. We may pay operating expenses, including due diligence expenses of potential new investments, from the net proceeds. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of the offering, pending full investment, are used to pay operating expenses.

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Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies like us may, during some periods, trade at prices higher than their net asset value and during other periods, as frequently occurs with closed-end investment companies, trade at prices lower than their net asset value. The possibility that our shares will trade at discounts from net asset value or at premiums that are unsustainable over the long term are risks separate and distinct from the risk that our net asset value will decrease. The risk of purchasing shares of a business development company that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Our Common Stock may not trade at a price higher than or equal to net asset value. On August 1, 2005, our stock closed at \$13.16 per share, a premium of \$8.55 over our net asset value per share of \$4.61 as of June 30, 2005.

Our former independent public accountant, Arthur Andersen LLP, no longer practices, and you may be unable to exercise effective remedies against it in any legal action.

Our former independent public accountant, Arthur Andersen LLP, provided us with auditing services for prior fiscal periods through December 31, 2001, certain information of which is included in the Selected Condensed Consolidated Financial Data section of this Prospectus. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. On August 31, 2002, Arthur Andersen LLP ceased practicing before the SEC. On May 31, 2005, the U.S. Supreme Court reversed the 2002 conviction and remanded the case to lower federal courts.

We were unable to obtain Arthur Andersen LLP's consent to use the information in the Selected Condensed Consolidated Financial Data section in this Prospectus. Rule 437(a) under the Securities Act of 1933, or the Securities Act, permits us to dispense with the requirement to file their consent. As a result, you may not have an effective remedy against Arthur Andersen LLP in connection with a material misstatement or omission with respect to the Selected Condensed Consolidated Financial Data section in this Prospectus or any other filing we may make with the SEC, including, with respect to this offering or any other offering registered under the Securities Act, any claim under Section 11 of the Securities Act. In addition, even if you were able to assert a claim, as a result of its conviction and other lawsuits, Arthur Andersen LLP may fail or otherwise have insufficient assets to satisfy claims made by investors or by us that might arise under federal securities laws or

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otherwise relating to any alleged material misstatement or omission with respect to our audited consolidated financial statements for the fiscal periods through December 31, 2001.

You have no right to require us to repurchase your shares.

You do not have the right to require us to repurchase your shares of Common Stock.

FORWARD-LOOKING INFORMATION

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settlement, a portion of the common shares received in the transaction were being held in escrow for the Company.

BUSINESS

We are a venture capital company specializing in tiny technology. We operate 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. While our portfolio includes 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 an increasingly 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.

As is usual in the venture capital industry, our venture capital investments are primarily 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 the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature and, in many cases, a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash.

We have a long history of investing in venture capital and of business development. Our approach is traditional, in that we employ a patient examination of available early stage opportunities, thorough due diligence and close involvement with management. Unlike most private equity and venture capital funds, we will not be subject to any requirement to return capital to investors. Such requirements typically stipulate that these funds can only be invested once and, together with any capital gains on such investment, must be returned to investors after a pre-agreed time period. These provisions may cause private equity and venture capital funds to seek investments that are likely to be able to be sold relatively quickly or to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might, potentially resulting in both a lower overall return to investors and an adverse impact on their portfolio companies.

In addition, to the investor, we offer:

- . a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;
- . a qualified team of professionals including five full time members of management, four of whom are designated as Managing Directors, Charles E. Harris, Douglas W. Jamison, Daniel V. Leff and Alexei A. Andreev, and a Vice President, Daniel B. Wolfe, to evaluate and monitor investments. Two of our directors are also consultants to us, Dr. Kelly S. Kirkpatrick and Lori D. Pressman. These seven professionals collectively have expertise in venture capital, intellectual property and tiny technology to evaluate and monitor investments;
- . the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and

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

Microsystems, microelectromechanical systems, which we refer to as MEMS, and nanotechnology are often referred to collectively as "tiny technology," or "small technology," by scientists and others in this field. Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in widespread 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 has significant scientific, engineering 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 in the future, as we believe it will likely become increasingly difficult to create new foundational intellectual property in nanotechnology.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first nanotechnology 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 the exclusive focus of our initial investment activity. Since August 2001, all 24 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes interests in a total of 26 companies, of which we consider 21 to be involved in tiny technology. While we intend to make initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing non-tiny technology portfolio companies. The balance of our funds is primarily invested in short-term U.S. government and government agency securities. We are an internally managed investment company because our officers and employees, under the general supervision of our Board of Directors, control our operations. We have no investment adviser.

Subject to our compliance with business development company and tax code requirements, there are no limitations on the types of securities or other assets, foreign or domestic, in which we may invest. Investments may include the following:

- . equity, equity-related securities (including warrants) and debt with equity features from either private or public issuers, whether in corporate, partnership or other form, including development stage or start-up entities;
- . debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity; and
- . to a limited extent, intellectual property, including patents, research and development in technology or product development that may lead to patents or other marketable technology.

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Neither our investments nor an investment in our securities constitutes a balanced investment program. We have been and will continue to be risk seeking rather than risk averse in our investment approach. We reserve the fullest possible freedom of action regarding the types of investments we make and our relationship with our portfolio companies, subject to our certificate of incorporation, applicable law and regulations, and policy statements described herein. Our tiny technology investment policy is not a "fundamental policy" under the 1940

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Act and, accordingly, may be changed without shareholder approval, although we will give shareholders at least 60 days prior written notice of any change.

Our business is subject to federal regulation under the 1940 Act, under which we have elected to operate as a business development company. As a business development company, we are subject to regulatory requirements, the most significant of which relate to our investments and borrowings. We are required to invest at least 70 percent of our assets in qualifying assets and, over time, at least 50 percent in "eligible portfolio companies." We must also maintain a coverage ratio of assets to senior securities (such as debt and preferred stock) of at least 200 percent immediately after giving effect to the issuance of any senior securities. We are also required to offer managerial assistance to our portfolio companies, in addition to our investment. For tax purposes, we are a RIC under the Internal Revenue Code of 1986.

We believe that increasing the size of our assets should lower our expenses as a proportion of average net assets because some of our costs, such as administration and public company expenses, are fixed and can be spread over a larger asset base and may decline as a percentage of assets as our assets increase. In addition, with more assets, we expect the average size of our investments to increase. Each due diligence investigation entails expenses whether or not we complete the transaction, and the cost of due diligence, negotiation and documentation of our investments does not vary significantly with the size of the investment or intended investment.

Some expenses are expected to increase as new investments are made. We plan to add personnel to enable us to enlarge the scope of our activities and our expertise in tiny technology, and our hiring of new employees will increase with more assets under management. We also believe that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of our visibility and improve the trading liquidity of our shares on the Nasdaq National Market. We may not realize any of these benefits.

Tiny Technology

Tiny technology refers to microsystems, MEMS and nanotechnology, a variety of enabling technologies with critical dimensions below 100 micrometers, including both organic and inorganic processes. Tiny technology is neither an industry nor a single technology. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, 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 accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but

that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces, fast acting painkillers and pharmaceutical therapeutics.

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 devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.00000001 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.

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MEMS

MEMS often refer to three-dimensional devices with features between one and 100 microns that integrate electrical and mechanical structures. MEMS devices often contain a combination of sensors, actuators, mechanical structures and electronics that detect or respond to thermal, biological, chemical or optical information. To date, most commercial MEMS devices are batch fabricated out of silicon, using techniques based on standard semiconductor processes. Examples of devices incorporating MEMS technology include airbag accelerometers, smart pens for digital signatures, the Sony AIBO(TM) entertainment robot and Texas Instruments' Digital Light Processing Cinema(TM) system.

Microsystems

Microsystems are similar to MEMS, but without mechanical parts. Microsystems are microscale machines that sense information from the environment and provide a response to it. A microsystem often integrates mechanical, fluidic, optical and pneumatic components into a single system.

Examples of two established microsystem technologies include microarrays and lab-on-a-chip. Microarrays can identify thousands of genes simultaneously and usually perform one type of analysis multiple times. Lab-on-a-chip is a small chip containing microfluidic channels that quickly separate liquids and gases in order to permit microsensors to analyze the properties of the liquids and gases. The following are additional fields in which microsystems are currently being used:

- . Military/Aerospace--telemetry, communications, guidance systems, control circuitry and avionics.
- . Geophysical Exploration--seismic data acquisition and geophysical measurement equipment.
- . Medical Instrumentation--instrument motor controls and diagnostic devices.
- . Satellite Systems--power monitoring and control circuits.
- . Industrial Electronic Systems--measurement and diagnostics on rotating machinery.

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- . Opto-Electronics--sub-miniature temperature controls and laser diode drivers for data transmission.

Nanotechnology

There are various definitions of nanotechnology. Regardless of the definition used, the technology being defined qualifies as tiny technology. A commonly used measure of nanotechnology includes all materials, devices and processes with critical dimensions below 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. Nanotechnology is defined by the U.S. Government's National Nanotechnology Initiative as research and technology development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1--100 nanometer range, to provide a fundamental understanding of phenomena and materials at the nanoscale and to create and use structures, devices and systems that have novel properties and functions because of their small and/or intermediate size.

The nanoscale is the scale at which quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow heretofore unattainable material and device performance. Nanotechnology science and its implications are currently the subject of intense research and development efforts in the governmental, academic and corporate sectors, in the United States and internationally.

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Government research funding and patenting activity, prerequisites to successful commercialization of nanotechnology, have been growing rapidly in recent years. Currently, researchers in the field are collaborating with entrepreneurs and venture capitalists to form companies around nanotechnology platforms. The first generation of nanotechnology products consists of instrumentation that permits visualization and manipulation of matter at the nanoscale and passive nanostructures such as coatings, nanoparticles and polymers. Examples of commercial instrumentation include nanoimprint lithography equipment, new variations of the atomic force microscope and highly sensitive gene and protein detecting arrays. Examples of commercial nanostructures include cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces, fast acting painkillers, certain pharmaceutical therapeutics, fluorescent quantum dots for biolabeling and bioassays and nanoscale chemical mechanical polishing slurries for wafer polishing.

We believe that the next generation of nanotechnology products will likely consist of active nanostructures, including transistors, targeted drugs and chemicals, actuators and adaptive structures. We believe that these products are at least two to three years away from commercial application. Examples of products being developed include semiconductor nanowires that act as tiny transistors; functionalized, drug-delivering polymers that allow the release of therapeutics to be controlled by temperature, pH or a magnetic field at specified locations within the body; and engineered membrane structures for filtration.

We project that longer-term product opportunities may include integrated nanosystems involving heterogeneous nanocomponents and various assembling techniques. Patent applications explaining the science of these discoveries have recently been filed, and the first commercial entities formed to develop these technologies are emerging from universities, federal government labs and industrial research centers. Future product opportunities may include exponentially denser and faster electronic devices, with individual molecules

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acting as transistors; tissues and organs engineered from self-assembling polymers that form biomimetic structures; and new forms of computing developed by exploiting the superposition of quantum particles.

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. Our strategy is to invest in the best of these tiny technology companies, with emphasis on nanotechnology companies. This strategy includes making a number of these investments in the current environment, which is characterized by diminished investment by venture capital companies and depressed valuations for privately held, early stage companies.

GENERAL DESCRIPTION OF OUR PORTFOLIO COMPANIES

The following are brief descriptions of each portfolio company in which we are invested. The portfolio companies are presented in two categories: companies where we directly or indirectly own five percent to 25 percent of the outstanding voting securities of the portfolio company or where we hold one or more seats on the portfolio company's Board of Directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies where we directly or indirectly own less than five percent of the outstanding voting securities of the portfolio company and where we have no other affiliations. We currently do not own 25 percent or more of any company. The value described below for each portfolio company is its fair value. Each portfolio company that we believe is significantly involved in tiny technology is designated by an asterisk (*).

Non-Controlled Affiliated Companies:

*Cambrios Technology Corporation, located at 2450 Bayshore Parkway, Mountain View, California 94043, is developing a directed-evolution technology platform that uses genetic approaches to evolve rapidly biomolecules that express specific control over materials synthesis and assembly. As a result, the company plans to produce inexpensive and uniform nanostructures and fibers that self-assemble and

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attach to other structures via molecular affinity. Cambrios's techniques can produce a wide variety of inorganic or commercially useful materials, including semiconductors, metals, ceramics, and magnetic materials. As of June 30, 2005, we held 1,294,025 shares of Series B Convertible Preferred Stock (representing 10.78 percent of the total Series B Convertible Preferred Stock outstanding) of Cambrios. As of the above date, our Valuation Committee fair valued the Series B Preferred Stock of Cambrios held by us at \$1,294,025. The Chief Executive Officer of the company is Michael R. Knapp. Daniel V. Leff serves as an observer to the Board of Directors of the company.

*Chlorogen, Inc., located at 893 North Warson Road, St. Louis, Missouri 63141, is developing a high-yield, plant-based protein production technology. In this production technology, DNA molecules are packaged as nanosized expression cassettes and inserted into the plant chloroplast by a high velocity "gene gun." The genes from the expression cassettes are integrated into the chloroplast genome, resulting in the manufacture of the selected protein. As of June 30, 2005, we held 4,478,038 shares of Series A Convertible Preferred Stock (representing 13.57 percent of the total Series A Convertible Preferred Stock outstanding) of Chlorogen. As of the above date, our Valuation Committee fair valued the Series A

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Series A Convertible Preferred Stock outstanding) and \$650,000 in Convertible Bridge Notes (representing 72.2 percent of the total Convertible Bridge Notes outstanding) of Nanopharma. As of the date above, our Valuation Committee fair valued the total securities of Nanopharma held by us at \$786,903. The Chief Executive Officer of the company is Julie A. Olson. Charles E. Harris serves as a Director of the company.

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NeuroMetrix, Inc., located at 62 Fourth Avenue, Waltham, Massachusetts 02451, is a spin-off from the Massachusetts Institute of Technology. NeuroMetrix develops and sells medical diagnostic products based on patented intellectual property related to developing portable instruments that permit low cost, non-invasive diagnostic tests. The company's core technology is focused on utilizing low-level, non-invasively measured, electrophysiological signals from nerves and muscles to perform an array of clinical diagnostic tests. The company's current products test for and monitor lower back pain, carpal tunnel syndrome and diabetic neuropathy. The company is operating in a large, untapped point-of-care neurodiagnostic market. The market opportunity has been estimated at over \$1 billion with over 90 percent of it estimated to be in monitoring lower back pain, carpal tunnel syndrome and diabetic neuropathy. There is minimal direct competition but strong indirect competition that takes two forms, ElectroMyoGraphy (EMG) and neurologists. EMG requires expensive capital equipment and is targeted at specialists. Neurologists are expensive, require referral and provide no revenue for referring physicians. The company has a small but rapidly growing market share. The company now has over 2,400 customers and has sold over one million biosensors. The company achieved initial 510(k) clearance from the Food and Drug Administration in 1998. Revenue is affected by government regulations specific to reimbursement procedures. The company is highly dependent on its intellectual property platform position. NeuroMetrix completed its initial public offering on July 22, 2004 at a price of \$8 per share. As of June 30, 2005, we held 1,137,570 shares of Common Stock (representing 9.4 percent of the Common Stock outstanding) of NeuroMetrix. As of the date above, the total amount of shares of NeuroMetrix held by us had a current market value of \$22,785,527. The company's Chief Executive Officer is Dr. Shai N. Gozani, the Chief Operating Officer is Gary L. Gregory, the Chief Financial Officer is W. Bradford Smith, and the Senior Vice President of Engineering is Michael Williams. Charles E. Harris previously served as a Director of the company.

*Nextreme Thermal Solutions, Inc., located at 3040 Cornwallis Road, Research Triangle Park, North Carolina, 27709, is developing next-generation thermoelectrics based on its unique, thin-film superlattice technology for applications that require extreme thermal management solutions. The technology has the potential to improve thermal management for the next generation of microprocessors and other integrated circuits. Other potential applications include refrigeration, personal heating/cooling, power generation, cooling microprocessors, fiber-optic switches, biotechnology and automotive energy management. As of June 30, 2005, we held 500,000 shares of Series A Convertible Preferred Stock (representing 14.29 percent of the total Series A Convertible Preferred Stock outstanding) of Nextreme. As of the above date, our Valuation Committee fair valued the Series A Convertible Preferred Stock of Nextreme held by us at \$500,000. The Chief Executive Officer of the company is Jesko von Windheim. Douglas W. Jamison serves as a Director of the company.

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Common Stock (representing 9.00 percent of the total Warrants outstanding). As of the date above, our Valuation Committee fair valued the total amount of securities of NeoPhotonics held by us at \$2,024,086. The Chief Executive Officer of the company is Timothy S. Jenks. Daniel V. Leff serves as an observer to the Board of Directors of the company.

*Optiva, Inc., located at 377 Oyster Point Boulevard, Suite 13, South San Francisco, California 94080, was developing and commercializing a new class of nanomaterials for advanced optical applications, initially for the flat panel display industry. As of June 30, 2005, we held 1,249,999 shares of the Series C Preferred Stock (representing 4.13 percent of the total Series C Convertible Preferred Stock outstanding) and \$150,000 in Convertible Bridge Notes (representing 11.54 percent of the total Convertible Bridge Notes outstanding) of Optiva. As of the date above, our Valuation Committee fair valued the total securities of Optiva held by us at \$0. The Chief Executive Officer of the company was Peter Hopper. As of the date above, our Valuation Committee fair valued the Convertible Bridge Note held by us at \$75,000.

With the exceptions of Alpha Simplex, Crystal IS, eLite Optoelectronics, Experion, Molecular Imprints, Nanomix, NanoOpto, NeoPhotonics, NeuroMetrix, Questech and Starfire Systems, none of the foregoing portfolio companies is currently generating revenues from commercial sales of products and/or services. Although Alpha Simplex, Crystal IS, eLite Optoelectronics, Experion, Molecular Imprints, Nanomix, NanoOpto, NeoPhotonics, NeuroMetrix, Questech and Starfire Systems are generating revenues from commercial sales of products and/or services, they are still relatively early-stage companies with the attendant risks. Any of the private companies may require additional funding that may not be obtainable at all or on the terms of their most recent fundings, which would result in partial or complete write-downs in the value of our investment. In general, private equity is difficult to obtain, especially in the current capital markets environment. Each company is dependent upon a single or small number of customers and/or key operating personnel. All of the foregoing companies rely heavily upon the technology associated with their respective business or, in the case of Exponential, with the companies in which it invests. Therefore, each company places great importance on its relevant patents, trademarks, licenses, algorithms, trade secrets, franchises or concessions. Lastly, each company is particularly vulnerable to general economic, private equity and capital markets conditions and to changes in government regulation, interest rates or technology.

DETERMINATION OF NET ASSET VALUE

Our investments can be classified into five broad categories for valuation purposes:

- . Equity-related securities;
- . Investments in intellectual property or patents or research and development in technology or product development;
- . Long-term fixed-income securities;
- . Short-term fixed-income investments; and
- . All other investments.

The 1940 Act requires periodic valuation of each investment in our

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portfolio to determine net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

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

Our Valuation Committee, comprised of three or more independent Board members, is responsible for reviewing and approving the valuation of our assets within the guidelines established by the Board of Directors.

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

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

Our valuation policy with respect to the five broad investment categories is as follows:

Equity-Related Securities

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

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

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

Private Market. The private market method uses actual, executed, historical transactions in a company's securities by responsible third parties

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as a basis for valuation. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

Public Market. The public market method is used when there is an established public market for the class of the company's securities held by us or into which our securities are convertible. We discount market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which

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market quotations are readily available, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

Investments in Intellectual Property or Patents or Research and Development in Technology or Product Development

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

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

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

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

As of June 30, 2005, we do not have any investments in intellectual property or patents or research and development in technologies or products.

Long-Term Fixed-Income Securities

Fixed-income securities for which market quotations are readily available

CERTAIN GOVERNMENT REGULATIONS

A business development company is regulated by the 1940 Act. A business development company must be organized in the United States for the purpose of investing in primarily private companies and making managerial assistance available to them. A business development company may use capital provided by public shareholders and from other sources to invest in private investments. A business development company provides shareholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing primarily in privately owned companies.

As a business development company, we may not acquire any assets other than "qualifying assets" unless, at the time we make the acquisition, the value of our qualifying assets represents at least 70 percent of the value of our total assets. The principal categories of qualifying assets relevant to our business are:

- . securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company;
- . securities received in exchange for or distributed with respect to securities described in the bullet above or pursuant to the exercise of options, warrants or rights relating to the securities; and
- . cash, cash items, government securities or high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of investment.

An eligible portfolio company is generally a domestic company that is not an investment company (other than a small business investment company wholly owned by a business development company) and that:

- . does not have a class of securities registered on an exchange or a class of securities with respect to which a broker may extend margin credit;
- . is actively controlled by the business development company and has an affiliate of a business development company on its Board of Directors; or
- . meets other criteria as may be established by the SEC.

Control under the 1940 Act is presumed to exist where a business development company beneficially owns more than 25 percent of the outstanding voting securities of the portfolio company.

To include securities described above as qualifying assets for the purpose of the 70 percent test, a business development company must make available to the issuer of those securities (whether directly or through cooperating parties) significant managerial assistance such as providing significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. We offer to provide managerial assistance to each of our portfolio companies.

As a business development company, we are entitled to issue senior securities in the form of stock or indebtedness, including bank borrowings and debt securities, as long as our senior securities have an asset coverage of at least 200 percent immediately after each issuance. See "Risk Factors."

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methods of sale. Any underwriter or agent involved in the offer and sale of our Common Stock will be named in the applicable Prospectus Supplement.

The distribution of our Common Stock may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share less any underwriting commissions or discounts must equal or exceed the net asset value per share of our Common Stock.

In connection with the sale of our Common Stock, underwriters or agents may receive compensation from us in the form of discounts, concessions or commissions. Underwriters may sell our Common Stock to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our Common Stock may be deemed to be underwriters under the Securities Act of 1933, and any discounts and commissions they receive from us and any profit realized by them on the resale of our Common Stock may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable Prospectus Supplement. The maximum commission or discount to be received by any NASD member or independent broker-dealer will not exceed eight percent. We will not pay any compensation to any underwriter or agent in the form of warrants, options, consulting or structuring fees or similar arrangements.

Any Common Stock sold pursuant to a Prospectus Supplement will be listed on the Nasdaq National Market.

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Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our Common Stock may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act of 1933. Underwriters, dealers and agents may engage in transactions with us, or perform services for us, in the ordinary course of business.

If so indicated in the applicable Prospectus Supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our Common Stock from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contacts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Common Stock shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the Prospectus Supplement, and the Prospectus Supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, our Common Stock offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

LEGAL MATTERS

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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.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (COSO).

A material weakness is a control deficiency (as defined in PCAOB Auditing Standard No. 2), or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2004, the Company did not maintain effective controls over the accuracy of the Financial Highlights ratios. Specifically, the Company's procedures for preparing the Financial Highlights ratios were not sufficiently detailed to detect errors in the underlying calculations. This control deficiency resulted in an audit adjustment to the line item referred to as total return based on net asset value in the Company's Financial Highlights section of the financial statements for the year ended December 31, 2004. This control deficiency could result in a material misstatement to other Financial Highlights ratios that would result in a material misstatement to the annual financial statements. Accordingly, management determined that this control deficiency constitutes a material weakness. Because of this material weakness, we have concluded that the Company did not maintain effective internal controls over financial reporting as of December 31, 2004, based on the criteria in Internal Control-Integrated Framework.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 47 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

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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

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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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. As of December 31, 2004, the Company did not maintain effective controls over the accuracy of the financial highlights ratios. Specifically, the Company's procedures for preparing the financial highlights ratios were not sufficiently detailed to detect errors in the underlying calculations. This control deficiency resulted in an audit adjustment to the line item referred to as total return based on net asset value in the Company's financial highlights section of the financial statements for the year ended December 31, 2004. Additionally, this control deficiency could result in a misstatement to other financial highlights ratios that would result in a material misstatement to the annual financial statements. Accordingly, management determined that this control deficiency constitutes a material weakness. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our

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- (8) Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own more than five percent, but less than 25 percent, of the voting shares of the portfolio company. Investments in controlled affiliated companies consist of investments in which we own more than 25 percent of the voting shares of the portfolio company.
- (9) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The calculated percentage represents the amount of the issuer's equity securities we own or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.
- (10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is \$11,760,258. The gross unrealized appreciation based on the tax cost for these securities is \$166,498. The gross unrealized depreciation based on the tax cost for these securities is \$3,442,173.
- (11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is \$20,736,347. The gross unrealized appreciation based on the tax cost for these securities is \$8,702,449. The gross unrealized depreciation based on the tax cost for these securities is \$6,301,419.
- (12) NeoPhotonics filed for bankruptcy on November 17, 2003. We sold our investment in its Series D Preferred Stock in January 2004. NeoPhotonics emerged from bankruptcy, as a newly reorganized company, after obtaining financing from us and other investors.
- (13) The Company's 1,137,570 share holding in NeuroMetrix, Inc. (Nasdaq National Market Symbol: NURO), before a lock-up discount, at the December 31, 2004, market price per share of \$11.75, was \$13,366,448. The lock-up expired on January 18, 2005. On March 1, 2005, the market price per share of NeuroMetrix was \$9.99. Charles E. Harris, our Chairman and CEO, is a board member of NeuroMetrix, Inc.

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

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

Method of S
Valuation/(3)/ Pr

Investments in Unaffiliated Companies/(8) (9) (10)/--11.3% of total
investments

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operations but has not realized significant revenue from them.

- (7) Previously named MyPersonalAdvocate.com, Inc.
- (8) Investments in unaffiliated companies consist of investments in which we own less than five percent of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own more than five percent but less than 25 percent of the portfolio company. Investments in controlled affiliated companies consist of investments in which we own more than 25 percent of the portfolio company.
- (9) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The calculated percentage represents the amount of the issuer's equity securities we own or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.
- (10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is \$6,354,651. The gross unrealized appreciation based on the tax cost for these securities is \$162,198. The gross unrealized depreciation based on the tax cost for these securities is \$1,747,516.
- (11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is \$11,127,228. The gross unrealized appreciation based on the tax cost for these securities is \$2,772,007. The gross unrealized depreciation based on the tax cost for these securities is \$3,561,992.
- (12) Non-registered investment company.
- (13) On April 30, 2003, NeoPhotonics Corporation distributed its shares in NanoGram Corporation to shareholders of record on November 14, 2002. We received 63,210 shares of Series 1 Preferred Stock.
- (14) On April 30, 2003, NeoPhotonics Corporation distributed its shares in NanoGram Devices Corporation to shareholders of record on November 14, 2002. We received 63,210 shares of Series A-1 Convertible Preferred Stock.
- (15) On July 10, 2003, we received 47,620 shares of Series A-2 Non-Voting Preferred stock of Heartware, Inc., a new company formed to acquire the assets and assume certain liabilities of Kriton Medical, Inc. as part of Kriton's bankruptcy.

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

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HARRIS & HARRIS GROUP, INC. FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

VALUATION PROCEDURES

Our investments can be classified into five broad categories for valuation purposes:

- 1) EQUITY-RELATED SECURITIES

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

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

Our Board of Directors is responsible for (1) determining overall valuation guidelines and (2) ensuring that our investments are valued within the prescribed guidelines.

Our Valuation Committee, comprised of three or more independent Board members, is responsible for reviewing and approving the valuation of our assets within the guidelines established by the Board of Directors. The Valuation Committee receives information and recommendations from management.

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

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

Our valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

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

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

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

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

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

D. Public Market: The public market method is used when there is an established public market for the class of a company's securities held by us or into which our securities are convertible. We discount market value for securities that are subject to significant legal or contractual transfer restrictions. Securities for which market quotations are readily available, and which are not subject to substantial legal or contractual and transfer restrictions, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation. If, for any reason, the Valuation Committee determines that market quotations are not reliable, such securities shall be fair valued by the Valuation Committee in accordance with these valuation procedures.

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

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

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

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

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and development, product development progress, commercial prospects, term of patent, projected markets, and other subjective factors.

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

LONG-TERM FIXED INCOME SECURITIES

H. Readily Marketable: Long-term fixed-income securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

I. Not Readily Marketable: Long-term fixed-income securities for which market quotations are not readily available are carried at fair value as determined in good faith by the Valuation Committee on the basis of available data, which may include credit quality, and interest rate analysis as well as quotations from broker-dealers or, where such quotations are not available, prices from independent pricing services that the Board believes are reasonably reliable and based on reasonable price discovery procedures and data from other sources.

SHORT-TERM FIXED-INCOME INVESTMENTS

J. Short-Term Fixed-Income Investments are valued in the same manner as long-term fixed income securities until the remaining maturity is 60 days or less, after which time such securities may be valued at amortized cost if there is no concern over payment at maturity.

ALL OTHER INVESTMENTS

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

For all other investments, the reported values shall reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation or any other method of valuation that the Valuation Committee determines after review and analysis is more appropriate for the particular kind of investment. They do not necessarily represent an amount of money that would be realized if we had to sell such assets in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we"), is a venture capital company operating as a business development company ("BDC")

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

LONG-TERM FIXED INCOME SECURITIES

H. Readily Marketable: Long-term fixed-income securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

I. Not Readily Marketable: Long-term fixed-income securities for which market quotations are not readily available are carried at fair value as determined in good faith by the Valuation Committee on the basis of available data, which may include credit quality, and interest rate analysis as well as quotations from broker-dealers or, where such quotations are not available, prices from independent pricing services that the Board believes are reasonably reliable and based on reasonable price discovery procedures and data from other sources.

SHORT-TERM FIXED-INCOME INVESTMENTS

J. Short-Term Fixed-Income Investments are valued in the same manner as long-term fixed income securities until the remaining maturity is 60 days or less, after which time such securities may be valued at amortized cost if there is no concern over payment at maturity.

ALL OTHER INVESTMENTS

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

For all other investments, the reported values shall reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation or any other method of valuation within the prescribed guidelines that the Valuation Committee determines after review and analysis is more appropriate for the particular kind of investment. They do not necessarily represent an amount of money that would be realized if we had to sell such assets in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (R) / / (the "Company," "us," "our" and "we"), is a venture capital company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). We operate as an internally managed company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

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Market value per share, end of period.....	\$	11.91	\$	12.24	\$	11.91	\$
Total return based on stock price/(1)/.....		(1.1)%		(27.1)%		(27.3)%	
 Supplemental Data:							
Net assets, end of period.....	\$	79,513,203	\$	39,266,216	\$	79,513,203	\$
Ratio of expenses to average net assets/(1)/.....		4.6%		2.1%		5.9%	
Ratio of net operating income (loss) to average net assets/(1)/.....		(4.3)%		(1.9)%		(5.3)%	
Portfolio turnover/(1)/.....		0.5%		0.0%		1.0%	
Cash dividends paid per share.....	\$	0	\$	0	\$	0	\$
Deemed dividend per share.....	\$	0	\$	0	\$	0	\$
Number of shares outstanding, end of period.....		17,248,845		13,798,845		17,248,845	

(1) Not annualized.

The accompanying notes are an integral part of this schedule.

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Until _____, all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a Prospectus and Prospectus Supplement. This is in addition to the obligation of dealers to deliver a Prospectus and Prospectus Supplement when acting as underwriters and with respect to their unsold allotments or subscriptions.

[LOGO]

HARRIS & HARRIS GROUP, INC.