



HARRIS & HARRIS GROUP, INC.®

Venture Capital for Tiny Technology

FIRST QUARTER REPORT 2006

FELLOW SHAREHOLDERS:

We have been investing quite actively in the year to date. During the first quarter ended March 31, 2006, we invested a total of \$9,412,746 in privately held companies working at the nanoscale. Two of these investments were initial deals, in which our Company invested a total of \$5,300,000. Two of these investments were follow-on deals, in which our Company invested a total of \$4,112,746. Additionally, since the close of the first quarter, our Company has invested \$4,809,950 in new and follow-on deals in companies working at the nanoscale. In summary, in 2006 to date, we have invested a total of \$14,222,714 in tiny-technology companies, versus a total of \$16,251,339 in all of 2005.

As the table below delineates, not only have we been investing in more tiny-technology companies, but also, as our net assets have increased, the average amount of our investments has been growing, and we have been able to act more frequently as a lead investor.

	Investments in Tiny Technology Since 2001						(To Date) 2006	Total
	2001	2002	2003	2004	2005			
Dollar Investments in Tiny Technology	\$489,999	\$6,240,118	\$3,812,600	\$14,926,749	\$16,251,339	\$14,222,714	\$56,693,519	
Number of New Investments	1	7	5	8	4	4	29	
Number of Follow-On Investments	0	1	5	21	12	4	43	
Average Dollar Amount - New	\$489,999	\$784,303	\$587,156	\$921,050	\$1,575,000	\$2,387,637	NA	
Average Dollar Amount - Follow On	NA	\$750,000	\$175,364	\$359,921	\$829,278	\$1,168,042	NA	
Number of Rounds Led	0	1	0	2	0	5	8	
Net Assets at Year End	\$24,334,770	\$27,256,046	\$40,682,738	\$74,744,749	\$117,987,742	NA	NA	

As the table above also depicts, our tiny-technology portfolio is quite young. All but one of our tiny-technology investments, Questech Corporation, have been made since August of 2001. (We originally invested in Questech in 1994. Today, Questech is a nicely profitable, rapidly growing manufacturer of decorative tiles; its line of metal tiles is enabled by a patented microscale process.) We have held the other 25 tiny-technology investments still in our portfolio for slightly less than two years on average since our initial investments in them.

The future is almost always different from the past, and most of the investments that we have closed out were not in tiny technology. But for lack of better data, it is interesting to look back at the ages of our successful venture capital investments when we sold them. Altogether, we have completed 18 profitable venture capital investments, including four PIPES (private investments in public equities). As we currently have no PIPES in our portfolio, the more relevant data is the time between our initial investments in privately held companies and their completions of initial public offerings (IPOs) or acquisitions.

Historically, eight of our portfolio companies completed IPOs, including one that we eventually sold at a loss. Focusing just on the seven profitable IPOs, the average time that elapsed from our initial investment to IPO was 4.26 years. Focusing just on the seven successful non-PIPE investments in which our exit was an acquisition, the average time that elapsed from our initial investment to acquisition was 3.7 years.

The shortest time from initial investment to IPO was 1.39 years, in a low-tech company that was relatively mature at the time of our initial investment. Two other IPOs took place a little over three years after our initial investment. NeuroMetrix took the longest time from initial investment to IPO, a little over eight years. Six of the seven successful non-PIPE investments in which the exit was an acquisition took less than four years, with the shortest taking 2.59 years.

Thus, our portfolio of 25 tiny-technology investments made since August 2001 is on average roughly two years younger than the average age of our 14 successful non-PIPE private-equity investments when they either completed IPOs or were acquired. Only four of the 25 now in our portfolio are approximately four years old. Moreover, of the 31 investments in tiny-technology companies that we have made since August of 2001, we have realized losses so far on only four of them -- half of the eight initial investments that we made in 2001 and 2002. Of the 44 private-equity investments that we have sold, on an all-inclusive basis encompassing tiny and non-tiny technology and PIPES as well as investments in privately held companies, we lost money on 26 (59 percent) and made money on 18 (41 percent). We have many advantages now that we did not have in the past, including a much larger deal flow. As a result, our current portfolio may contain a lower percentage of money-losing investments than we have experienced in the past. But it is too early to know what our loss experience will be, and we certainly should expect to realize some more losses over time from our current portfolio.

If the future is anything like the past, a reasonable expectation for our current portfolio as it matures would be for it to exhibit the "J-curve" pattern common to early stage venture capital: i.e., more write downs and write offs followed by some successful exits through acquisitions and IPOs. Successful exits of course cannot be guaranteed. But the asymmetrical potential of early stage venture capital invested in companies with proprietary technology means that it does not take many winners to give a very satisfactory return on overall investment. Indeed, in the 44 deals that we have sold, we invested a total of \$51,144,319 and received back a total of \$143,614,382. (The average holding period on the 146 tranches of investments in these 44 deals was 2.85 years.)

The next few years should be eventful both for nanotechnology in general and for our current portfolio. Because it takes time to build up an inventory of companies that are mature enough to sell profitably through acquisitions and IPOs, it has not been a problem for us that the market for venture-backed IPOs has been very subdued since the crash of 2000. Our portfolio of tiny technology investments would not previously have been in a position to take full advantage of a robust IPO window. Moreover, the tepid IPO market has helped to keep the wholesale prices that we pay when we invest fairly reasonable. But, in time, we will need a reawakening IPO market.

An ideal scenario for us would be for some of our portfolio companies to be ready for IPOs at the same time that another robust market for venture-backed IPOs materialized. As always, we thank our fellow shareholders for your understanding of and patience with the cycles of venture capital and the capital markets and your continued support of our Company's endeavor to remain in the vanguard of venture capital for the commercialization of nanotechnology.

			
Charles E. Harris Chairman and Chief Executive Officer Managing Director	Douglas W. Jamison President and Chief Operating Officer Managing Director	Daniel V. Leff Executive Vice President Managing Director	Alexei A. Andreev Executive Vice President Managing Director

May 19, 2006

This letter may contain statements of a forward-looking nature relating to future events. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. These statements reflect the Company's current beliefs, and a number of important factors could cause actual results to differ materially from those expressed in this press release. Please see the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission, for a more detailed discussion of the risks and uncertainties associated with the Company's business, including but not limited to the risks and uncertainties associated with venture capital investing and other significant factors that could affect the Company's actual results. Except as otherwise required by Federal securities laws, Harris & Harris Group, Inc.®, undertakes no obligation to update or revise these forward-looking statements to reflect new events or uncertainties. The reference to the website www.TinyTechVC.com has been provided as a convenience, and the information contained on such website is not incorporated by reference into this letter.

**Unaudited Schedule of Investments\***  
(As of March 31, 2006)

<b>Investment</b>	<b>Shares/ Principal</b>	<b>Value</b>
AlphaSimplex Group, LLC Limited Liability Company Interest	--	\$ 4,058
BridgeLux, Inc. Series B Convertible Preferred Stock	1,861,504	1,000,000
Cambrios Technologies Corporation Series B Convertible Preferred Stock	1,294,025	1,294,025
Chlorogen, Inc. Series A Convertible Preferred Stock	4,478,038	785,000
Series B Convertible Preferred Stock	2,077,930	<u>364,261</u>
		1,149,261
Crystal IS, Inc. Series A Convertible Preferred Stock	274,100	199,983
CSwitch, Inc. Series A Convertible Preferred Stock	1,000,000	500,000
Series B Convertible Preferred Stock	5,700,000	<u>2,850,000</u>
		3,350,000
Evolved Nanomaterial Sciences, Inc. Series A Convertible Preferred Stock	5,870,021	2,800,000
Exponential Business Development Company Limited Partnership Interest	--	0
Kereos, Inc. Series B Convertible Preferred Stock	349,092	960,000
Kovio, Inc. Series C Convertible Preferred Stock	2,500,000	3,000,000
Mersana Therapeutics, Inc. Series A Convertible Preferred Stock	68,452	136,904
Series B Convertible Preferred Stock	616,500	1,233,000
Warrants at \$2.00 expiring 10/21/10	91,625	<u>0</u>
		1,369,904
Metabolon, Inc. Series B Convertible Preferred Stock	2,173,913	2,500,000
Molecular Imprints, Inc. Series B Convertible Preferred Stock	1,333,333	2,000,000
Series C Convertible Preferred Stock	1,250,000	2,500,000
Warrants at \$2.00 expiring 12/31/11	125,000	<u>0</u>
		4,500,000
NanoGram Corporation Series I Convertible Preferred Stock	63,210	64,259
Series II Convertible Preferred Stock	1,250,904	1,271,670
Series III Convertible Preferred Stock	1,242,144	<u>1,262,764</u>
		2,598,693
Nanomix, Inc. Series C Convertible Preferred Stock	9,779,181	2,500,000
NanoOpto Corporation Series A-1 Convertible Preferred Stock	267,857	32,490
Series B Convertible Preferred Stock	3,819,935	1,110,073
Series C Convertible Preferred Stock	1,932,789	842,503
Warrants at \$0.4359 expiring 03/15/10	193,279	<u>0</u>
		1,985,066
Nanosys, Inc. Series C Convertible Preferred Stock	803,428	2,370,113
Series D Convertible Preferred Stock	1,016,950	<u>3,000,003</u>
		5,370,116
Nantero, Inc. Series A Convertible Preferred Stock	345,070	1,046,908
Series B Convertible Preferred Stock	207,051	628,172
Series C Convertible Preferred Stock	188,315	<u>571,329</u>
		2,246,409
NeoPhotonics Corporation Common Stock	716,195	67,736
Series 1 Convertible Preferred Stock	1,831,256	2,014,677
Series 2 Convertible Preferred Stock	741,898	878,120
Warrants at \$0.15 expiring 01/26/10	16,364	164
Warrants at \$0.15 expiring 12/05/10	14,063	<u>140</u>
		2,960,837
Nextreme Thermal Solutions, Inc. Series A Convertible Preferred Stock	500,000	500,000
Polatis, Inc. Series A-1 Convertible Preferred Stock	16,775	47,828
Series A-2 Convertible Preferred Stock	71,611	<u>204,172</u>
		252,000
Questech Corporation Common Stock	646,954	724,588
Warrants at \$1.50 expiring 08/03/06	8,500	0
Warrants at \$1.50 expiring 11/21/07	3,750	0
Warrants at \$1.50 expiring 11/19/08	5,000	0
Warrants at \$1.50 expiring 11/19/09	5,000	<u>0</u>
		724,588
Solazyme, Inc. Series A Convertible Preferred Stock	988,204	385,400
Starfire Systems, Inc. Common Stock	375,000	150,000
Series A-1 Convertible Preferred Stock	600,000	<u>600,000</u>
		750,000
Zia Laser, Inc. Series C Convertible Preferred Stock	1,500,000	<u>0</u>
<b>Total</b>		<b><u>\$42,400,340</u></b>

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

	<u>ASSETS</u>	
	March 31, 2006 (Unaudited)	December 31, 2005
Cash, U.S. government and government agency securities and cash equivalents .....	\$ 75,801,962	\$ 97,464,153
Investments, at value .....	42,400,340	33,187,333
Restricted funds.....	1,901,078	1,730,434
Receivable from portfolio company .....	0	75,000
Interest receivable .....	565,259	248,563
Prepaid expenses .....	452,030	2,993
Other assets.....	218,654	229,644
<b>Total assets</b> .....	<u>\$ 121,339,323</u>	<u>\$ 132,938,120</u>

<u>LIABILITIES &amp; NET ASSETS</u>		
Accounts payable and accrued liabilities.....	\$ 3,410,979	\$ 3,174,183
Accrued profit sharing.....	210,786	2,107,858
Deferred rent.....	29,302	31,003
Current taxes payable.....	1,354,504	1,514,967
Taxes payable on behalf of shareholders.....	0	8,122,367
<b>Total liabilities</b> .....	<u>5,005,571</u>	<u>14,950,378</u>

<b>Net assets</b> .....	<u>\$ 116,333,752</u>	<u>\$ 117,987,742</u>
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**Net assets are comprised of:**

Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued.....	\$ 0	\$ 0
Common stock, \$0.01 par value, 30,000,000 shares authorized; 22,585,085 issued at 3/31/06 and 12/31/05.....	225,851	225,851
Additional paid in capital.....	122,149,642	122,149,642
Accumulated net realized income .....	3,016,509	3,781,905
Accumulated unrealized depreciation of investments .....	(5,652,719)	(4,764,125)
Treasury stock, at cost (1,828,740 shares at 3/31/06 and 12/31/05) .....	(3,405,531)	(3,405,531)

<b>Net assets</b> .....	<u>\$ 116,333,752</u>	<u>\$ 117,987,742</u>
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<b>Shares outstanding</b> .....	<u>20,756,345</u>	<u>20,756,345</u>
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<b>Net asset value per outstanding share</b> .....	<u>\$ 5.60</u>	<u>\$ 5.68</u>
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**HARRIS & HARRIS GROUP, INC.®**  
**CONSOLIDATED STATEMENTS OF OPERATIONS\***  
(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
<b>Investment income:</b>		
Interest from:		
Fixed income securities .....	\$ 802,362	\$ 221,498
Portfolio companies.....	0	38,610
Miscellaneous income.....	2,500	0
<b>Total investment income</b> .....	<u>804,862</u>	<u>260,108</u>
<b>Expenses:</b>		
Salaries and benefits.....	786,361	567,691
Administration and operations.....	322,449	321,961
Profit-sharing provision .....	0	(311,594)
Professional fees.....	289,887	272,465
Rent .....	61,238	48,682
Directors' fees and expenses .....	85,902	85,660
Depreciation .....	16,768	15,269
Custodian fees .....	10,000	5,564
<b>Total expenses</b> .....	<u>1,572,605</u>	<u>1,005,698</u>
<b>Net operating loss</b> .....	<u>(767,743)</u>	<u>(745,590)</u>
<b>Net realized income (loss) from investments:</b>		
Realized income (loss) from investments .....	11,953	(1,036,044)
Income tax expense.....	9,606	4,217
<b>Net realized income (loss) from investments</b> .....	<u>2,347</u>	<u>(1,040,261)</u>
<b>Net realized loss</b> .....	<u>(765,396)</u>	<u>(1,785,851)</u>
<b>Net increase in unrealized depreciation on investments:</b>		
Change as a result of investment sales.....	0	1,363,891
Change on investments held .....	(888,594)	(1,811,487)
<b>Net increase in unrealized depreciation on investments</b> .....	<u>(888,594)</u>	<u>(447,596)</u>
<b>Net decrease in net assets resulting from operations:</b>		
<b>Total</b> .....	<u>\$ (1,653,990)</u>	<u>\$ (2,233,447)</u>
<b>Per average outstanding share</b> .....	<u>\$ (0.08)</u>	<u>\$ (0.13)</u>
<b>Average outstanding shares</b> .....	<u>20,756,345</u>	<u>17,248,845</u>

\*Selected quarterly financial information. The information contained herein does not include the full unaudited quarterly financial information. Please see the Company's report on Form 10-Q for the quarter ended March 31, 2006 for the unaudited financial information and notes thereto.

**Portfolio Company Websites**

<u>Portfolio Company</u>	<u>Website Address</u>
AlphaSimplex Group, LLC	www.alphasimplex.com
BridgeLux, Inc.	www.bridgelux.com
Cambrios Technologies Corporation	www.cambrios.com
Chlorogen, Inc.	www.chlorogen.com
Crystal IS, Inc.	www.crystal-is.com
CSwitch, Inc.	www.cswitch.com
Evolved Nanomaterial Sciences, Inc.	www.ensbio.com
Kereos, Inc.	www.keros.com
Kovio, Inc.	www.kovio.com
Mersana Therapeutics, Inc.	www.mersana.com
Metabolon, Inc.	www.metabolon.com
Molecular Imprints, Inc.	www.molecularimprints.com
NanoGram Corporation	www.nanogram.com
Nanomix, Inc.	www.nano.com
NanoOpto Corporation	www.nanoopto.com
Nanosys, Inc.	www.nanosysinc.com
Nantero, Inc.	www.nantero.com
NeoPhotonics Corporation	www.neophotonics.com
Nextreme Thermal Solutions, Inc.	www.nextremethermal.com
Polatis, Inc.	www.polatis.com
Questech Corporation	www.questechmetals.com
Solazyme, Inc.	www.solazyme.com
Starfire Systems, Inc.	www.starfiresystems.com
Zia Laser, Inc.	www.zialaser.com

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**Venture Capital Investments at March 31, 2006**

Investments, at Value

<b>Tiny Technology</b>	<b>\$42,396,282</b>	<b>99.9%</b>
BridgeLux, Inc.	1,000,000	
Cambrios, Inc.	1,294,025	
Chlorogen, Inc.	1,149,261	
Crystal IS, Inc.	199,983	
CSwitch, Inc.	3,350,000	
Evolved Nanomaterial Sciences, Inc.	2,800,000	
Kereos, Inc.	960,000	
Kovio, Inc.	3,000,000	
Mersana Therapeutics, Inc.	1,369,904	
Metabolon, Inc.	2,500,000	
Molecular Imprints, Inc.	4,500,000	
NanoGram Corporation	2,598,693	
Nanomix, Inc.	2,500,000	
NanoOpto Corporation	1,985,066	
Nanosys, Inc.	5,370,116	
Nantero, Inc.	2,246,409	
NeoPhotonics Corporation	2,960,837	
Nextreme Thermal Solutions, Inc.	500,000	
Polatis, Inc.	252,000	
Questech Corporation	724,588	
Solazyme, Inc.	385,400	
Starfire Systems, Inc.	750,000	
Zia Laser, Inc.	0	
<b>Non-Tiny Technology</b>	<b>\$4,058</b>	<b>.1%</b>
AlphaSimplex Group LLC	\$4,058	
Exponential Business Development Company	0	
<b>Total*</b>	<b>\$42,400,340</b>	<b>100.0%</b>