

HARRIS & HARRIS GROUP, INC.®

Venture Capital for Tiny Technology

FIRST QUARTER REPORT 2007

FELLOW SHAREHOLDERS:

On May 21, 2007, Oaktree Capital Management became the first company to list its shares on a new domestic exchange, GS TRuE (Goldman Sachs Tradable Unregistered Equity). GS TRuE is the first of the private exchanges reportedly in the works by several securities firms and by Nasdaq for companies that want to gain liquidity without being subject to the Sarbanes-Oxley Act and the other regulatory burdens and litigation exposures of being a publicly traded company in the United States. This development is potentially the best news for the venture capital industry in particular and for American economic competitiveness in general since the passage of the Sarbanes-Oxley Act in 2002 dimmed the prospects for American entrepreneurial activity. The Nasdaq version of such a private exchange system reportedly will be called "Portal" and will create a market in stocks issued under SEC Rule 144A, which permits companies to sell shares to qualified buyers without the extensive disclosure and ongoing reporting requirements involved in being a public company. If these private exchanges prove to be viable, they could unlock value in existing venture capital portfolios and encourage development of new technologies and formation of new companies in the United States.

Unless a company trading on one of these private exchanges were to exceed a 499 shareholder limit, it would not have to register as a public company. To be eligible to trade securities on the first of these private exchanges, GS TRuE, an institution generally must have more than \$100 million in assets. Our preliminary assessment of these new exchanges is that they may present a compelling alternative for our portfolio companies to consider and that Harris & Harris Group itself would qualify as an institutional investor eligible to buy and sell on these private exchanges.

These new private exchanges may be viewed as yet another way -- along with companies selling themselves to private equity and going public on foreign stock exchanges -- that the Sarbanes-Oxley Act and other regulatory and litigation considerations peculiar to U.S. publicly traded companies are having the unintended, anti-democratic consequence of excluding American individual investors from being able to invest directly in operating companies. (Whatever happened to the old New York Stock Exchange slogan, "Own a Piece of America?") But if these new private exchanges prove viable for venture capital-backed companies, they are potentially great news for Harris & Harris Group and our portfolio companies.

Our Company, Harris & Harris Group, is a traditional, early stage, venture capital firm. But we are one of the few venture capital firms that invests primarily in companies working at the nanoscale. Nanotechnology is not an industry; nanotechnology is sets of enabling technologies applicable to a wide range of traditional industries. The products and services that our portfolio companies are developing, manufacturing and selling determine the industries to which they belong. Similarly, while tiny technologies give our portfolio companies competitive advantages, venture capital is the industry in which we compete and to which we belong.

Once an investee company is beyond the seed stage, we co-invest in a syndicate with one or more other venture capital firms to fund and to help management develop the investee company. We also co-invest with industrial companies in various of our portfolio companies. Below, please find a list of the venture capital firms and some of the industrial companies with which we have co-invested, with numbers in parenthesis indicating multiple instances of co-investment.

Venture Capital Firms With Which We Have Co-Invested

3i Group	Duff Ackerman & Goodrich	Oxford Bioscience Partners (2)
Accel Partners	El Dorado Ventures (2)	Polaris Venture Partners
Alafi Capital	EnerTech Capital	Prism Venture Partners (2)
Alloy Ventures (2)	Fidelity Biosciences	Prolog Ventures (2)
Alta Partners	First Analysis	Proquest
Apax Partners (2)	Flagship Ventures (2)	Prospect Venture Partners
ARCH Venture Partners (7)	GF Private Equity	Redshift Ventures (2)
ATA Ventures (4)	Globespan Capital Partners	Rho Ventures
Atlas Ventures	Headland Ventures	RiverVest
Aurora Ventures (2)	Highland Capital Partners	Rockport Capital Partners (4)
Avalon Ventures	In-Q-Tel (3)	Roda Group
Battery Ventures	Institutional Venture Partners (2)	Rothschild Ventures
Bay Partners (4)	Jerusalem Venture Partners (2)	RWI Group
Bessemer Venture Partners (7)	JPMorgan Partners	Sevin Rosen Funds (3)
Burrill & Company	Kleiner Perkins Caufield & Byers	Sigvion Capital
California Technology Ventures	Lux Capital (4)	Star Ventures
CB Health Ventures	Masters Capital (4)	StarTech Early Ventures
Charles River Ventures (2)	Morgenthaler (2)	Stata Venture Partners
Charter Life Sciences	Morningside Technology Ventures	Technology Partners
CW Group	NanoStart (2)	Techxas Ventures
Cycad Group	New Enterprise Associates	Trelys Venture Partners
DCM - Doll Capital Management (2)	NGEN Partners (2)	Triathlon Venture Partners
Delphi Ventures	Noro-Moseley Partners	Trinity Ventures
DFJ Gotham	Nth Power (3)	US Trust
DFJ New England	Oak Investment Partners (2)	Venrock Associates (5)
Draper Fisher Jurvetson (5)	One Liberty Ventures (3)	Whitney & Co. (4)

Industrial Companies With Which We Have Co-Invested

Applied Ventures	Genentech	Micron Ventures
Brewer Science	H.B. Fuller	Mitsui & Co. Venture Partners
Carl Zeiss	Intel Capital (3)	Motorola
Chartered Semiconductor	Itochu	SAIC Ventures
Clariant	KLA-Tencor	South Epitaxy Corporation
Diamond Capital (Mitsubishi)	Lam Research Corp.	Tokyo Electron Corp.
Eastman Kodak	Medtronic Ventures	

Although there are a few other, much larger, venture capital funds that have invested even more money in nanotechnology-enabled companies than Harris & Harris Group, we are not aware of any other venture capital firm that has investments in as many nanotechnology-enabled companies as Harris & Harris Group. Sometimes, one or more of the other venture capital firms in an investment syndicate with us makes a specialty of nanotechnology, but frequently we are the only venture capital firm that specializes in nanotechnology in an investment syndicate. We bring to a syndicate not only our general expertise in venture capital and business development, but also our special expertise in nanoscale science and technology. In turn, we derive leverage not only from other venture capital firms' venture capital expertise and sharing of the funding of these early stage companies, but also from their specialized knowledge. For example, other venture capital firms have vertical industry expertise that may be superior to our own in particular industries, such as semiconductors, medical devices, alternative energy or biotechnology. Thus, in the classical, open system of venture capital in which we participate, the investee companies benefit not only from our financial resources, expertise and contacts, but also from those of our co-investors.

A venture capital firm's investment returns cannot be better than the investment opportunities from which it can choose. A venture capital firm is also constrained by the quality of its people and the amount of capital that it has available for investment. We feel very fortunate with respect to deal flow. In 2007 to date, we have logged some 120 new opportunities.

We also feel very fortunate with respect to the quality of people that we have attracted to Harris & Harris Group. Since 2001, when we began to focus exclusively on tiny technology, only one person to whom we have offered a job has turned us down – a young woman, to whom we offered the job of assistant controller a couple of years ago, who elected to stay at PricewaterhouseCoopers. Recently, one of our professionals, Daniel V. Leff, resigned, effective September 30, 2007, and three new professionals joined us. Michael A. Janse joined our deal team in Palo Alto as a Managing Director, from ARCH Venture Capital, a very fine firm with which we have had the privilege of co-investing seven times and that has been a pioneer in nanotechnology. Misti Ushio, Ph.D., joined our deal team in New York as an Associate, from Columbia University, where she managed its intellectual property in nanotechnology, after spending some 11 years at Merck & Company. Jennifer M. McGovern is joining our legal and administrative staff as Assistant Vice President, following five years of work at the asset management firm of BlackRock, Inc. We will be closing our one-person office in Los Angeles and will now have offices only in New York City and Palo Alto.

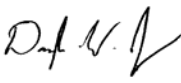
We have a very liquid balance sheet, which has enabled us to reserve capital for follow-on investments in our existing portfolio companies while continuing to make selected new investments. But, to take full advantage of our leadership position with respect to venture capital for nanotechnology, we will need more capital. Our preferred method of generating more capital is through retaining earnings from successful deals. Partly because we made a pre-tax profit of \$30,179,762 in late 2005 from the sale of our interest in a former start-up company in which we had been the seed investor, NeuroMetrix, Inc., we have been able to continue making new investments since August 2005 without making offerings of our stock. But, as we have long stated, if we have to choose between surrendering our leadership position with respect to venture capital for nanotechnology or selling more stock, we will choose the latter as being more in our shareholders' long-term interest.

Early stage venture capital firms such as ourselves are in a business of asymmetric returns: a successful investment can earn many multiples of what an unsuccessful investment can lose. All losses hurt, but frequently a venture capital firm's returns over time are determined by a few outstanding investments.

While we will, as always, be mindful of the very real risks in our business and will continue to write down investments that appear to be diminished in value, we are highly energized by the technical and commercial progress of companies in our portfolio. We are motivated by the potential impact that a big winner can have on our net asset value, in our business of asymmetric returns. And we are keenly interested in the evolution of the new private exchanges as possible exits for some of our portfolio companies. As fellow shareholders, we thank you for making it possible for Harris & Harris Group to be an active investor in our portfolio companies and a leader in venture capital for 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 30, 2007

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 letter. Please see the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and the Company's report on Form 10-Q for the quarter ended March 31, 2007, 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 references to portfolio company websites have been provided as a convenience, and the information contained on such websites is not incorporated by reference into this letter.

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

ASSETS

	March 31, 2007 (Unaudited)	December 31, 2006
Cash, U.S. government and government agency securities and cash equivalents	\$ 58,266,366	\$ 60,727,935
Investments, at value	54,694,963	53,667,831
Restricted funds	2,258,665	2,149,785
Receivable from broker	0	819,905
Interest receivable	563,375	625,372
Prepaid expenses	427,580	10,945
Other assets	297,754	326,817
Total assets	<u>\$ 116,508,703</u>	<u>\$ 118,328,590</u>

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	\$ 3,906,008	\$ 4,115,300
Accrued profit sharing	0	261,661
Deferred rent	19,626	21,326
Current taxes payable	56,767	0
Total liabilities	<u>3,982,401</u>	<u>4,398,287</u>
Net assets	<u>\$ 112,526,302</u>	<u>\$ 113,930,303</u>
Net assets are comprised of:		
Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0
Common stock, \$0.01 par value, 45,000,000 shares authorized at 3/31/07 and 12/31/06; 23,169,769 issued at 3/31/07 and 22,843,757 issued at 12/31/06	231,698	228,438
Additional paid-in capital	134,784,100	129,801,201
Accumulated net realized loss	(6,500,609)	(3,747,912)
Accumulated unrealized depreciation of investments	(12,644,883)	(9,007,420)
Unrecognized net gain on retirement benefit plans	61,527	61,527
Treasury stock, at cost (1,828,740 shares at 3/31/07 and 1,828,740 shares at 12/31/06)	(3,405,531)	(3,405,531)
Net assets	<u>\$ 112,526,302</u>	<u>\$ 113,930,303</u>
Shares outstanding	<u>21,341,029</u>	<u>21,015,017</u>
Net asset value per outstanding share	<u>\$ 5.27</u>	<u>\$ 5.42</u>

**HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS*
(Unaudited)**

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Investment income:		
Interest from:		
Fixed income securities	\$ 652,498	\$ 802,362
Miscellaneous income	0	2,500
Total investment income	<u>652,498</u>	<u>804,862</u>
Expenses:		
Salaries, benefits and stock-based compensation	2,534,766	786,361
Administration and operations	380,865	322,449
Professional fees	182,195	289,887
Rent	59,507	61,238
Directors' fees and expenses	141,196	85,902
Depreciation	15,313	16,768
Custodian fees	5,774	10,000
Total expenses	<u>3,319,616</u>	<u>1,572,605</u>
Net operating loss	<u>(2,667,118)</u>	<u>(767,743)</u>
Net realized gain (loss) from investments:		
Realized (loss) gain from investments	(674)	11,953
Income tax expense	84,905	9,606
Net realized (loss) gain from investments	<u>(85,579)</u>	<u>2,347</u>
Net realized loss	<u>(2,752,697)</u>	<u>(765,396)</u>
Net increase in unrealized depreciation on investments:		
Change as a result of investment sales	0	0
Change on investments held	(3,637,463)	(888,594)
Change in unrealized depreciation on investments	(3,637,463)	(888,594)
Net increase in unrealized depreciation on investments	<u>(3,637,463)</u>	<u>(888,594)</u>
Net decrease in net assets resulting from operations:		
Total	<u>\$ (6,390,160)</u>	<u>\$ (1,653,990)</u>
Per average basic and diluted outstanding share	<u>\$ (0.30)</u>	<u>\$ (0.08)</u>
Average outstanding shares	<u>21,277,576</u>	<u>20,756,345</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, 2007 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
D-Wave Systems, Inc.	www.dwavesys.com
Evolved Nanomaterial Sciences, Inc.	www.ensbio.com
Innovalight, Inc.	www.innovalight.com
Kereos, Inc.	www.kereos.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
SiOnyx, Inc.	www.sionyxinc.com
Solazyme, Inc.	www.solazyme.com
Starfire Systems, Inc.	www.starfiresystems.com
Xradia, Inc.	www.xradia.com
Zia Laser, Inc.	www.zialaser.com

Venture Capital Investments at March 31, 2007*

Investments, at Value

Tiny Technology	\$54,683,927	99.9%
Adesto Technologies Corporation	1,147,826	
BridgeLux, Inc.	1,355,398	
Cambrios, Inc.	2,594,025	
Chlorogen, Inc.	0	
Crystal IS, Inc.	1,319,719	
CSwitch, Inc.	3,350,000	
D-Wave Systems, Inc.	1,734,600	
Evolved Nanomaterial Sciences, Inc.	1,571,719	
Innovalight, Inc.	2,500,000	
Kereos, Inc.	1,500,000	
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.	330,228	
NanoOpto Corporation	586,429	
Nanosys, Inc.	5,370,116	
Nantero, Inc.	2,246,409	
NeoPhotonics Corporation	5,456,599	
Nextreme Thermal Solutions, Inc.	1,750,000	
Polatis, Inc.	386,762	
Questech Corporation	905,050	
SiOnyx, Inc.	960,050	
Solazyme, Inc.	885,400	
Starfire Systems, Inc.	750,000	
Xradia, Inc.	4,000,000	
Zia Laser, Inc.	15,000	
Non-Tiny Technology	\$11,036	.1%
AlphaSimplex Group LLC	\$11,036	
Exponential Business Development Company	0	
Total*	\$54,694,963	100.0%