



HARRIS & HARRIS GROUP, INC.®

A Publicly Traded Venture Capital Company Investing in Tiny Technology

SECOND QUARTER REPORT 2005

Fellow Shareholders:

On August 23, 2005, we completed our previously announced public offering of 3,050,000 shares of our common stock at \$11.25 per share, for estimated net proceeds of approximately \$31,913,750 after deducting underwriting discounts and commissions and estimated expenses payable by the Company. We have granted an option to the underwriters to purchase up to an additional 457,000 shares of our common stock at \$11.25 per share through September 16, 2005, to cover over-allotments, if any. All of the shares of common stock were sold by us pursuant to an effective shelf registration statement filed with the Securities and Exchange Commission. ThinkEquity Partners LLC acted as the sole book runner for the offering. Punk, Ziegel & Company acted as co-manager for the offering. This offering was essentially the balance of a 7,000,000 share shelf registration that we had filed with the Securities and Exchange Commission in February of 2004. We had previously sold 3,450,000 shares at \$11.25 per share in an offering underwritten by the same two firms on June 30, 2004.

The Company has made significant progress on multiple fronts over the last 13 months since our June 30, 2004, public offering. During that period:

- Owing primarily to the successful initial public offering of NeuroMetrix, Inc., and its subsequent price appreciation, and to the anti-dilutive effect of our 3,450,000 share June 30, 2004, stock offering at \$11.25 per share, our net asset value per share increased from \$2.85 on June 29, 2004, to \$5.07 on August 17, 2005.
- We reviewed over 300 investment opportunities.
- We completed eight new investments in tiny technology companies.
- We completed 15 follow-on investments in our tiny technology portfolio companies.
- Altogether, we invested \$12,467,726 in tiny technology companies, with pre-emptive rights to make follow-on investments in future rounds of financing in these companies.
- NeuroMetrix (Nasdaq: NURO) completed a successful initial public offering.
- We hired six new employees (two investment professionals, two accounting professionals, a general counsel and chief compliance officer and an administrative assistant), for a net increase of four in our number of full-time employees, to a current total of 10.

These additional employees include Patricia N. Egan and Thomas M. McCarthy. Ms. Egan joined us as Chief Accounting Officer and Vice President during the quarter ended June 30, 2005. Prior to joining us, she was a Manager in the Financial Services Group of PricewaterhouseCoopers, LLP. She was graduated from Georgetown University. Thomas M. McCarthy joined our team following the close of the June quarter as Controller. Mr. McCarthy was a Manager in the Global Capital Markets group at PricewaterhouseCoopers, LLP. He was graduated from the University of Minnesota.

In the first half of the year, we invested a total of \$5,644,076 in tiny technology. Of this total, \$3,300,000 was in three new investments, and \$2,344,076 was in six follow-on investments. (Please see page 26 of our Quarterly Report on Form 10-Q for the period ended June 30, 2005, for more details.)

At June 30, 2005, the value of our venture capital portfolio totaled \$45,421,482. Since the close of the first half of 2005 to the date of this Letter to Shareholders, we have invested an additional \$1,083,000 in two follow-on investments. Our last 24 initial investments, dating back to 2001, have been in tiny technology.

At June 30, 2005, approximately half of the value of our venture capital portfolio was in our 1,137,570 shares of NeuroMetrix, Inc. (Nasdaq: NURO), a company in which we were the seed investor that went public in July of 2004. Although our lock-up period with respect to the sale of these shares ended in January of this year, as of the date of this letter, we have chosen not to sell any of this holding. Because NeuroMetrix is the last of our significant non-tiny technology investments, once we sell our interest in it, our Company's portfolio will be essentially composed only of tiny technology companies.

As our fellow shareholders, we are appreciative of your understanding of the cyclical nature of the venture capital industry, as well as your shared vision of the commercial significance of tiny technology, particularly nanotechnology. We welcome our new shareholders and the additional capital that you have provided to us.

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

August 24, 2005

Unaudited Schedule of Investments*
(As of June 30, 2005)

<u>Investment</u>	<u>Shares/ Principal</u>	<u>Value</u>
AlphaSimplex Group, LLC Limited Liability Company Interest	--	\$ 125,000
Cambrios Technologies Corporation Series B Convertible Preferred	1,294,025	1,294,025
Chlorogen, Inc. Series A Convertible Preferred	4,478,038	785,000
Continuum Photonics, Inc. Series B Convertible Preferred Stock Series C Convertible Preferred Stock	2,000,000 2,689,103	57,865 <u>199,635</u> 257,500
Crystal IS, Inc. Series A Convertible Preferred	274,100	199,983
CSwitch, Inc. Series A Convertible Preferred Stock	1,000,000	1,000,000
eLite Optoelectronics Inc. Series B Convertible Preferred Stock	1,861,504	1,000,000
Experion Systems, Inc. Series A Convertible Preferred Stock Series B Convertible Preferred Stock Series C Convertible Preferred Stock Series D Convertible Preferred Stock	187,500 22,500 222,184 64,501	0 0 0 <u>0</u> 0
Exponential Business Development Company Limited Partnership Interest	--	0
Heartware, Inc. Series A-2 Non-Voting Preferred Stock	47,620	0
Kereos, Inc. Series B Convertible Preferred Stock	290,910	800,000
Molecular Imprints, Inc. Series B Convertible Preferred Stock	1,333,333	2,000,000
NanoGram Corporation Series I Convertible Preferred Stock Series II Convertible Preferred Stock	63,210 1,250,904	21,672 <u>1,000,723</u> 1,022,395
Nanomix, Inc. Series C Convertible Preferred Stock	9,779,181	2,500,000
NanoOpto Corporation Series A-1 Convertible Preferred Stock Series B Convertible Preferred Stock Series C Convertible Preferred Stock Warrants at \$0.4359 expiring 03/15/10	267,857 3,819,935 1,932,789 193,279	32,490 1,110,073 842,503 <u>0</u> 1,985,066
Nanopharma Corp. Series A Convertible Preferred Stock Secured Convertible Bridge Note with 25 % Warrants	684,516 \$650,000	136,903 <u>650,000</u> 786,903
Nanosys, Inc. Series C Convertible Preferred Stock	803,428	1,500,000
Nantero, Inc. Series A Convertible Preferred Stock Series B Convertible Preferred Stock Series C Convertible Preferred Stock	345,070 207,051 188,315	1,046,908 628,172 <u>571,329</u> 2,246,409
NeoPhotonics Corporation Common Stock Series 1 Convertible Preferred Stock Warrants at \$0.15 expiring 01/26/10 Warrants at \$0.15 expiring 12/05/10	60,580 1,831,256 16,364 14,063	9,105 2,014,677 164 <u>140</u> 2,024,086
NeuroMetrix, Inc. Common Stock	1,137,570	22,785,527
Nextreme Thermal Solutions, Inc. Series A Convertible Preferred Stock	500,000	500,000
Optiva, Inc. Series C Convertible Preferred Stock Secured Convertible Bridge Note with 50% Preferred Stock Warrant coverage	1,249,999 \$150,000	0 <u>75,000</u> 75,000
Questech Corporation Common Stock Warrants at \$1.50 expiring 11/16/05 Warrants at \$1.50 expiring 08/03/06 Warrants at \$1.50 expiring 11/21/07 Warrants at \$1.50 expiring 11/19/08 Warrants at \$1.50 expiring 11/19/09	646,954 1,250 8,500 3,750 5,000 5,000	724,588 0 0 0 0 <u>0</u> 724,588
Solazyme, Inc. Convertible Promissory Note	\$310,000	310,000
Starfire Systems, Inc. Common Stock Series A-1 Convertible Preferred Stock	375,000 600,000	150,000 <u>600,000</u> 750,000
Zia Laser, Inc. Series C Convertible Preferred Stock	1,500,000	<u>750,000</u>
Total		\$45,421,482

*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 June 30, 2005 for the unaudited financial information and notes thereto.

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

ASSETS	June 30, 2005 (Unaudited)	December 31, 2004
Cash, U.S. Government and Government Agency Securities and cash equivalents	\$ 55,386,507	\$45,273,054
Investments, at value	45,421,482	31,621,960
Restricted funds	1,617,185	1,591,971
Funds in escrow	999,999	0
Receivable from portfolio company	0	10,000
Interest receivable	70,278	58,960
Income tax receivable	7,891	2,480
Prepaid expenses	232,353	542,489
Other assets, net of reserve of \$255,486 at 12/31/04	258,530	260,537
Total assets	<u>\$103,994,225</u>	<u>\$79,361,451</u>

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	\$ 2,775,400	\$ 2,905,658
Broker payable	18,297,158	0
Accrued profit sharing	2,012,465	311,594
Deferred rent	31,529	34,930
Deferred income tax liability	1,364,470	1,364,470
Total liabilities	<u>24,481,022</u>	<u>4,616,652</u>
Net assets	<u>\$ 79,513,203</u>	<u>\$ 74,744,799</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, 30,000,000 shares authorized at 6/30/05 and 25,000,000 shares authorized at 12/31/04; 19,077,585 issued at 6/30/05 and 12/31/04	190,776	190,776
Additional paid in capital	85,658,150	85,658,150
Accumulated net realized loss	(11,436,440)	(4,961,123)
Accumulated unrealized appreciation (depreciation) of investments, including deferred tax liability of \$1,540,044 at 6/30/05 and at 12/31/04	8,506,248	(2,737,473)
Treasury stock, at cost (1,828,740 shares at 6/30/05 and 12/31/04)	(3,405,531)	(3,405,531)
Net assets	<u>\$ 79,513,203</u>	<u>\$74,744,799</u>
Shares outstanding	<u>17,248,845</u>	<u>17,248,845</u>
Net asset value per outstanding share	<u>\$ 4.61</u>	<u>\$ 4.33</u>

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Investment income:				
Interest from:				
Fixed-income securities	\$ 202,132	\$ 74,211	\$ 428,482	\$ 130,064
Portfolio companies	(48,390)	5,020	(9,780)	5,703
Other income	4,975	0	5,124	0
Total investment income	<u>158,717</u>	<u>79,231</u>	<u>423,826</u>	<u>135,767</u>
Expenses:				
Profit sharing	2,012,465	0	1,700,871	0
Salaries and benefits	614,610	495,107	1,182,300	965,182
Administration and operations.....	487,144	186,776	809,106	346,075
Professional fees	218,122	78,878	490,587	157,939
Rent	51,180	38,918	99,861	72,655
Directors' fees and expenses	55,082	41,177	140,741	93,623
Depreciation	16,073	9,665	31,342	18,948
Bank custody fees	6,135	3,294	11,699	5,794
Total expenses	<u>3,460,811</u>	<u>853,815</u>	<u>4,466,507</u>	<u>1,660,216</u>
Net operating loss	<u>(3,302,094)</u>	<u>(774,584)</u>	<u>(4,042,681)</u>	<u>(1,524,449)</u>
Net realized (loss) income on investments:				
Realized (loss) income on investments	(1,386,741)	2,580	(2,427,785)	795,969
Income tax provision	(634)	(1,112)	(4,851)	(7,908)
Net realized (loss) income on investments	<u>(1,387,375)</u>	<u>1,468</u>	<u>(2,432,636)</u>	<u>788,061</u>
Net realized loss	<u>(4,689,469)</u>	<u>(773,116)</u>	<u>(6,475,317)</u>	<u>(736,388)</u>
Net increase (decrease) in unrealized appreciation on investments:				
Investment sales	1,766,210	0	2,956,491	915,118
Investments held	9,925,106	(1,463,921)	8,287,230	(1,595,252)
Net increase (decrease) in unrealized appreciation on investments	<u>11,691,316</u>	<u>(1,463,921)</u>	<u>11,243,721</u>	<u>(680,134)</u>
Net increase (decrease) in net assets resulting from operations:				
Total	<u>\$ 7,001,847</u>	<u>\$ (2,237,037)</u>	<u>\$ 4,768,404</u>	<u>\$ (1,416,522)</u>
Per average outstanding share	<u>\$ 0.41</u>	<u>\$ (0.16)</u>	<u>\$ 0.28</u>	<u>\$ (0.10)</u>
Average outstanding shares	<u>17,248,845</u>	<u>13,798,845</u>	<u>17,248,845</u>	<u>13,798,845</u>

Portfolio Company Websites

<u>Portfolio Company</u>	<u>Website Address</u>
AlphaSimplex Group, LLC	www.alphasimplex.com
Cambrios Technologies Corporation	www.cambrios.com
Chlorogen, Inc.	www.chlorogen.com
Continuum Photonics, Inc.	www.continuumphotonics.com
Crystal IS, Inc.	www.crystal-is.com
CSwitch, Inc.	www.cswitch.com
eLite Optoelectronics Inc.	www.eliteopto.net
Experion Systems, Inc.	www.experionsystems.com
Exponential Business Development Company	
Heartware, Inc.	
Kereos, Inc.	www.keros.com
Molecular Imprints, Inc.	www.molecularimprints.com
NanoGram Corporation	www.nanogram.com
Nanomix, Inc.	www.nano.com
NanoOpto Corporation	www.nanoopto.com
Nanopharma Corp.	
Nanosys, Inc.	www.nanosysinc.com
Nantero, Inc.	www.nantero.com
NeoPhotonics Corporation	www.neophotonics.com
NeuroMetrix, Inc.	www.neurometrix.com
Nextreme Thermal Solutions, Inc.	www.nextremethermal.com
Optiva, Inc.	www.optivainc.com
Questech Corporation	www.questechmetals.com
Solazyme, Inc.	www.solazyme.com
Starfire Systems, Inc.	www.starfiresystems.com
Zia Laser, Inc.	www.zialaser.com

Venture Capital Investments at June 30, 2005

Investments, at Value

Tiny Technology	\$22,510,955	49.6 %
Cambrios, Inc.	1,294,025	
Chlorogen, Inc.	785,000	
Continuum Photonics, Inc.	257,500	
Crystal IS, Inc.	199,983	
CSwitch, Inc.	1,000,000	
eLite Optoelectronics Inc.	1,000,000	
Kereos, Inc.	800,000	
Molecular Imprints, Inc.	2,000,000	
NanoGram Corporation	1,022,395	
Nanomix, Inc.	2,500,000	
NanoOpto Corporation	1,985,066	
Nanopharma Corp.	786,903	
Nanosys, Inc.	1,500,000	
Nantero, Inc.	2,246,409	
NeoPhotonics Corporation	2,024,086	
Nextreme Thermal Solutions, Inc.	500,000	
Optiva, Inc.	75,000	
Questech Corporation	724,588	
Solazyme, Inc.	310,000	
Starfire Systems, Inc.	750,000	
Zia Laser, Inc.	750,000	
Non-Tiny Technology	\$22,910,527	50.4%
AlphaSimplex Group LLC	125,000	
Experion Systems, Inc.	0	
Exponential Business Development Company	0	
Heartware, Inc.	0	
NeuroMetrix, Inc.	22,785,527	
Total*	\$45,421,482	100.0%