

HARRIS & HARRIS GROUP, INC.®

Venture Capital for Tiny Technology

SECOND QUARTER REPORT 2007

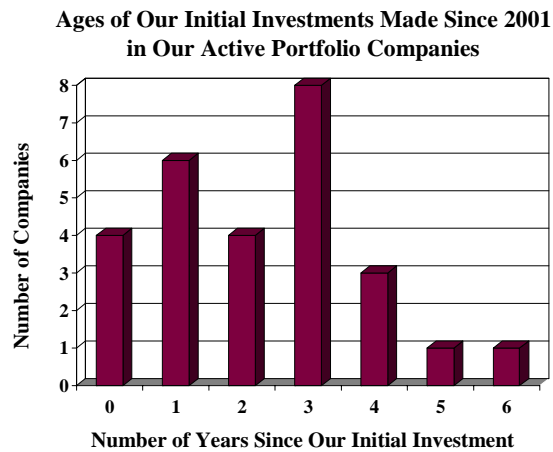
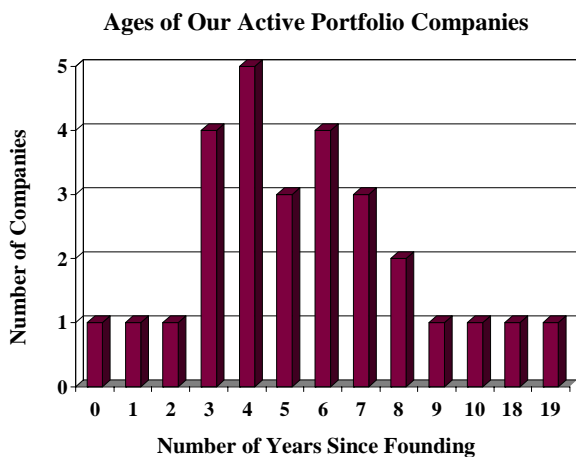
FELLOW SHAREHOLDERS:

Our assessment of our Company as we enter the second half of 2007 is that it is in its strongest position ever.

We believe that our position as a leader in our chosen field is established. Indeed, we are unaware of any other venture capital firm that has as many companies in its portfolio working at the nanoscale as we do (we currently put 26 of our 28 active portfolio companies in that category). We now routinely co-invest with much larger, mainstream, venture capital firms, whether or not they have a particular focus on nanotechnology, and we are now often the lead investor in a given round of financing. Our portfolio contains not only promising new investments, but also maturing investments. Moreover, nanotechnology is providing us such a strong flow of potential new deals that we see no end to our investment opportunities. Our balance sheet is sufficiently liquid, with no debt and \$70,076,969 worth of cash and treasury bills and notes at June 30, to enable us not only to exercise our pre-emptive rights to invest in future rounds of financing by our existing portfolio companies, but also to take advantage of the deal flow that our position as a leading provider of venture capital to nanotechnology-enabled companies brings us.

Our deal team has never been as strong as it is now, with the additions of Michael A. Janse in our Palo Alto office and Misti Ushio, Ph.D., in our New York office. We believe that the Company has never been as well managed as it is now, with the processes that we have put into place to comply with Section 404 of Sarbanes-Oxley and with Rule 38a-1 under the Investment Act of 1940, as well as with the seasoning of our accounting and legal staff, to which we recently added Jennifer M. McGovern, J.D. Our Board of Directors has never been as strong as it is now, with the institution of the position of Lead Independent Director, currently held by Dugald A. Fletcher, and with the recent addition of Richard P. Shanley, C.P.A., to both the Board and the Audit Committee.

Below, please find two graphs grouping our active portfolio companies according to their ages since founding and, for those that we invested in since 2001, their ages since our initial investment. In 2006, the 56 venture capital-backed companies that completed successful IPOs in the United States had a median age since funding of eight years. (Acquisitions of venture capital-backed companies can occur at any age.)



One of our long-time shareholders recently asked a number of insightful questions. To paraphrase, these questions included, "Why does the Company believe that it is so important to keep growing, even at a time when venture capital-backed IPO activity in the U.S. is at a slow pace; and why is the Company so insistent on maintaining its leadership position with respect to venture capital for nanotechnology?"

We believe that all companies need to grow in order to remain healthy. In our case, we particularly need to keep growing, as nanotechnology is growing rapidly, across the globe and across industries. If we failed to keep responding to the more attractive deals that came our way, we would fall behind, and our deal flow -- particularly the flow to us of the better deals -- would soon dry up. A venture capital firm's investment results are circumscribed by the quality of the deals from which it has the opportunity to choose. In fact, a very important part of the franchise value of a successful venture capital firm is its position in the venture capital industry and its resultant deal flow, even though industry position is an intangible asset that does not appear on the balance sheet. Our deals come to us from a variety of sources: research universities, inventors, entrepreneurs, other venture capital firms, shareholders, Wall Street and large corporations. Many of these sources are much larger institutions than we are, and they would be less interested in working with us if we were not perceived as an active leader in our chosen field -- venture capital for tiny technology, particularly nanotechnology.

The venture capital industry is highly cyclical. When venture capital IPOs are booming, it is usually not a very good time for a venture capital firm to be investing aggressively, and vice-versa. With the exception of a couple of hot areas, we are finding the valuations of venture capital opportunities to be quite attractive during this period of lackluster IPO activity.

It is also important for us to keep growing in order to drive down our fixed and semi-fixed overhead costs as a percentage of our assets. Like most smaller, publicly held, U.S. companies, our fixed overhead soared when Sarbanes-Oxley became law. Moreover, we are one of the few companies that not only has to comply with Section 404 of Sarbanes-Oxley, which was intended to apply to publicly traded operating companies, but also to Rule 38a-1 under the Investment Act of 1940, which was intended to apply to mutual funds and other investment companies. As a result, we have to maintain a legal and administrative infrastructure designed to deal with both of these regulatory regimens. The good news is that we are now in a position to grow our assets without having to add to our regulatory overhead for the foreseeable future.

We also need to continue growing in order to be able to act more frequently as the lead investor in rounds of financing for venture capital-backed companies. Typically, the lead investor negotiates the price and terms of a particular round of financing and is entitled to a seat on the board of the investee company. Capital and position in the venture capital industry are factors in determining whether a firm can act as a lead investor. In 2006, as our capital and stature grew, Harris & Harris Group acted as a lead investor seven times, versus a total of three times in the years 2001-2005.

Growth is also important in attracting and retaining the highly educated investment and legal and administrative personnel with specialized skills and experience that we require to be competitive as a venture capital firm specializing in tiny technology and to manage a publicly traded company with unusual regulatory requirements. Our main attraction to these expert people is their own assessment of the wealth-creating potential of investing in tiny technology in general and of our portfolio and deal flow in particular. In addition, such people want to help build and work for a firm that is a leader in its chosen field. They want to continue the personal growth and career growth that they have experienced all of their lives, which is only possible at a company of our size if it keeps growing. We also need to be able to compensate these sought-after employees competitively. Unlike our competitors, we do not as a matter of course pay cash bonuses, and we discontinued paying employee profit sharing in 2006 in favor of a stock option plan. In the first 12 months of our stock option plan, every officer increased his or her share ownership in the Company, by a cumulative total of 64,948 shares.

Obviously, no stock option plan will attract and retain employees unless the stock appreciates. Since August 2001, when we began making all of our new investments in tiny technology-enabled companies, our stock has appreciated by 366.9 percent, versus 32.9 percent for Nasdaq. But since our net asset value per share peaked at \$5.94 at September 30, 2005, versus \$5.54 at June 30, 2007, our stock has stayed in a trading range between \$9.38 and \$16.10 per share. Long-term capital gains through acquisitions and initial public offerings of our portfolio companies will be required for our net asset value per share to start increasing once again. Consequently, our work is geared towards creating long-term capital gains. Another reason that we are dedicated to generating long-term capital gains is to fuel our continued growth with retained earnings, rather than by selling shares of our stock to raise capital.

Nanotechnology as a commercial phenomenon is growing rapidly throughout the world. We have no intention of allowing Harris & Harris Group to stand still, as we do not want to lose our competitive position and miss good investment opportunities. Currently, our unique access to our ecosystem of portfolio companies working with nanotechnology gives us a competitive knowledge advantage, because each of those portfolio companies has its own technical expertise with respect to certain aspects of nanotechnology. Often, we are the smallest firm invited into a syndicate of venture capital firms investing in a given deal. Our expertise in nanotechnology is an important part of our ability to co-invest with larger firms that may have other areas of expertise superior to our own. Similarly, as far as we know, every securities analyst who follows nanotechnology follows Harris & Harris Group. As a smaller company, it would not be reasonable to expect that we would have so much research coverage if we were not regarded as a leader in our field.

Nanotechnology is not an industry; nanotechnology is sets of enabling technologies applicable to many traditional industries. The enabling technologies behind many of the solutions for advances in healthcare, electronics, semiconductors, and clean technology are often nanotechnologies. As companies developing nanotechnologies begin to introduce products to these sectors, these companies begin to be seen as healthcare companies, semiconductor companies, electronic companies and clean technology companies.

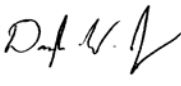
In clean technology, or green technology, the enabling technologies behind many of the solutions for various problems relating to production of energy and reduction of waste and pollution are often nanotechnologies. In our own portfolio, at least eight of our investee companies can be defined as companies whose main business consists of utilizing tiny technology in order to achieve a clean technology solution. These companies include Bridgelux, Inc., Crystal IS, Inc., Innovalight, Inc., Lifco, Inc., Nanogram Corporation, Nextreme Thermal Solutions, Inc., Solazyme, Inc. and Starfire Systems, Inc. Because these companies now constitute such a large percentage of our portfolio (eight of our 28 active tiny technology investments), we have decided to group them in a "TinyTech for CleanTech" portfolio within our overall portfolio.

Shareholders should be mindful that our business will always be highly risky and subject to change without notice. As always, portfolio writedowns and writeoffs will be a byproduct of our risk-seeking strategy of investing in new companies developing products and services based on proprietary novel technologies. Nevertheless, we have never been more bullish on nanotechnology, our position, our personnel, our portfolio and our opportunity.

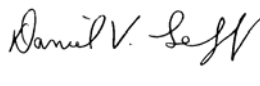
In summary, we regard our primary job as generating long-term capital gains from our portfolio, in order to generate growth in our net asset value per share. We believe that our company is in the best position in which it has ever been to generate such growth. And above all, we know that our patient shareholders deserve to benefit from such growth!



Charles E. Harris
Chairman and Chief Executive Officer
Managing Director



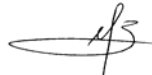
Douglas W. Jamison
President and Chief Operating Officer
Managing Director



Daniel V. Leff
Executive Vice President
Managing Director



Michael A. Janse
Executive Vice President
Managing Director



Alexei A. Andreev
Executive Vice President
Managing Director

August 9, 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 June 30, 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

	<u>ASSETS</u>	
	June 30, 2007 (Unaudited)	December 31, 2006
Cash, U.S. government and government agency securities and cash equivalents	\$ 70,076,969	\$ 60,727,935
Investments, at value	58,851,548	53,667,831
Restricted funds	2,325,318	2,149,785
Receivable from broker	151,565	819,905
Interest receivable	585,156	625,372
Prepaid expenses	305,743	10,945
Other assets	288,148	326,817
Total assets	<u>\$ 132,584,447</u>	<u>\$ 118,328,590</u>
 <u>LIABILITIES & NET ASSETS</u>		
Accounts payable and accrued liabilities	\$ 4,344,189	\$ 4,115,300
Accrued profit sharing (Note 5)	0	261,661
Deferred rent	17,925	21,326
Total liabilities	<u>4,362,114</u>	<u>4,398,287</u>
Net assets	<u>\$ 128,222,333</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 6/30/07 and 12/31/06; 24,970,664 issued at 6/30/07 and 22,843,757 issued at 12/31/06	249,707	228,438
Additional paid-in capital (Note 7)	154,555,766	129,801,201
Accumulated net realized loss	(9,400,489)	(3,747,912)
Accumulated unrealized depreciation of investments	(13,838,647)	(9,007,420)
Unrecognized net gain on retirement benefit plans	61,527	61,527
Treasury stock, at cost (1,828,740 shares at 6/30/07 and 12/31/06)	(3,405,531)	(3,405,531)
Net assets	<u>\$ 128,222,333</u>	<u>\$ 113,930,303</u>
Shares outstanding	<u>23,141,924</u>	<u>21,015,017</u>
Net asset value per outstanding share	<u>\$ 5.54</u>	<u>\$ 5.42</u>

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

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Investment income:				
Interest from:				
Fixed-income securities	\$ 637,701	\$ 780,265	\$ 1,290,199	\$ 1,582,627
Miscellaneous income	0	5,000	0	7,500
Total investment income	<u>637,701</u>	<u>785,265</u>	<u>1,290,199</u>	<u>1,590,127</u>
Expenses:				
Salaries, benefits and stock-based compensation (Note 4)	2,644,284	804,151	5,179,050	1,590,512
Administration and operations	357,178	406,092	738,043	728,541
Professional fees	335,067	97,938	517,262	387,825
Rent	58,813	57,381	118,320	118,619
Directors' fees and expenses	112,157	94,900	253,353	180,802
Depreciation	15,908	16,128	31,221	32,896
Custodian fees	5,961	2,562	11,735	12,562
Total expenses	<u>3,529,368</u>	<u>1,479,152</u>	<u>6,848,984</u>	<u>3,051,757</u>
Net operating loss	<u>(2,891,667)</u>	<u>(693,887)</u>	<u>(5,558,785)</u>	<u>(1,461,630)</u>
Net realized gain (loss) from investments:				
Realized (loss) gain from investments	(8,213)	1,500	(8,887)	13,453
Income tax expense (Note 6)	0	9,931	84,905	19,537
Net realized loss from investments	<u>(8,213)</u>	<u>(8,431)</u>	<u>(93,792)</u>	<u>(6,084)</u>
Net increase in unrealized depreciation on investments:				
Change on investments held	(1,193,764)	(580,679)	(4,831,227)	(1,469,273)
Net increase in unrealized depreciation on investments	<u>(1,193,764)</u>	<u>(580,679)</u>	<u>(4,831,227)</u>	<u>(1,469,273)</u>
Net realized and unrealized loss from investments	<u>(1,201,977)</u>	<u>(589,110)</u>	<u>(4,925,019)</u>	<u>(1,475,357)</u>
Net decrease in net assets resulting from operations	<u>\$ (4,093,644)</u>	<u>\$ (1,282,997)</u>	<u>\$ (10,483,804)</u>	<u>\$ (2,936,987)</u>
Per average basic and diluted outstanding share	<u>\$ (0.19)</u>	<u>\$ (0.06)</u>	<u>\$ (0.49)</u>	<u>\$ (0.14)</u>
Average outstanding shares	<u>21,721,591</u>	<u>20,756,345</u>	<u>21,500,810</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 June 30, 2007 for the unaudited financial information and notes thereto.

Portfolio Company Websites

<u>Portfolio Company</u>	<u>Website Address</u>
Adesto Technologies Corporation	www.adestotech.com
AlphaSimplex Group, LLC	www.alphasimplex.com
Ancora Pharmaceuticals Inc.	www.ancorapharma.com
BridgeLux, Inc.	www.bridgelux.com
Cambrios Technologies Corporation	www.cambrios.com
Crystal IS, Inc.	www.crystal-is.com
CSwitch, Inc.	www.cswitch.com
D-Wave Systems, Inc.	www.dwavesys.com
Ensemble Discovery Corporation	www.ensemblediscovery.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
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

Venture Capital Investments at June 30, 2007*

Investments, at Value

Tiny Technology	\$58,840,512	99.9%
Adesto Technologies Corporation	1,147,826	
Ancora Pharmaceuticals Inc.	800,000	
BridgeLux, Inc.	1,969,944	
Cambrios, Inc.	2,594,025	
Chlorogen, Inc.	74,790	
Crystal IS, Inc.	1,319,719	
CSwitch, Inc.	3,350,000	
D-Wave Systems, Inc.	1,880,760	
Ensemble Discovery Corporation	2,000,000	
Evolved Nanomaterial Sciences, Inc.	438,042	
Innovalight, Inc.	2,500,000	
Kereos, Inc.	1,500,000	
Kovio, Inc.	3,125,000	
Lifco, Inc.	946,528	
Mersana Therapeutics, Inc.	1,869,902	
Metabolon, Inc.	2,500,000	
Molecular Imprints, Inc.	4,500,000	
NanoGram Corporation	2,598,693	
Nanomix, Inc.	1,010,468	
NanoOpto Corporation	60,000	
Nanosys, Inc.	5,370,116	
Nantero, Inc.	2,246,409	
NeoPhotonics Corporation	5,456,599	
Nextreme Thermal Solutions, Inc.	1,750,000	
Polatis, Inc.	388,814	
Questech Corporation	832,427	
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*	\$58,851,548	100.0%