HARRIS & HARRIS GROUP, INC.®

Venture Capital for Tiny Technology

THIRD QUARTER REPORT 2007

FELLOW SHAREHOLDERS:

In spite of recent stock-market turmoil, an event took place on November 1 that had been long awaited by investors in nanotechnology: the first successful, large, initial public offering (IPO) of a nanotech-enabled company, Nanosphere, Inc. (Nasdaq: NSPH). The first nanotech IPO, that was identified as such, was that of Nanophase Technologies Corporation (Nasdaq: NANX), which went public in 1997. We were one of Nanophase's largest shareholders, and it was a profitable deal for us, but its IPO was much smaller than Nanosphere's.

Nanosphere, which was founded in 2000, raised over $100 million in its IPO, and its stock initially performed very well in the aftermarket: priced at $14 per share, it rose above $22 in its first three days of trading, with its fully diluted market capitalization rising above $0.5 billion. Nanosphere's successful IPO was by no means solely owing to its nanotechnology appeal, of course. Even though Nanosphere is in some respects still in its early stages of commercialization, it has highly regarded management and strong financial backers, and its proprietary, nanotechnology-enabled system positions it in the currently "hot" field of molecular diagnostics.

Nanosphere is, however, not in our portfolio. That observation begs the question: how far along are our portfolio companies? In the graph on the back of this letter (page 4), we indicate by year all of the initial investments that we have made since 2001, when we began to make initial investments exclusively in tiny technology. You may recall that we have written before in our shareholder communications (most recently, on page 19 of our Form 10-K dated December 31, 2006) about the venture capital "J-Curve," in which the losing investments in a group of venture capital investments tend to be written down before the winning investments prove their value. In our current portfolio of 36 both active and inactive unsold positions, we have invested a total of $82,677,369, which we have written down by $10,292,463 to $72,384,906. Nine of the 38 companies in which we have invested since 2001 are no longer active (one because it was acquired for a substantial premium, eight because they were underperforming). Of the nine inactive positions, we have actually disposed of five, for a net loss of $3,111,298 in addition to the $10,292,463 in write-downs of our 36 unsold positions.

Given the nature of early stage, venture-capital investments in companies developing novel technology, it would be surprising if some of our currently active investments do not also wind up being sold for a loss. Indeed, we have already written down sharply two of our 29 currently active investments, and we have written down others by smaller percentages for various reasons. But what about the positive side of the J-Curve?

An economist at the University of Chicago, Frank Knight, made the distinction between "risk" (randomness with knowable probabilities) and "uncertainty" (randomness with unknowable probabilities) in his 1921 dissertation, *Risk, Uncertainty and Profit*. Our business of early stage, venture-capital investments in companies developing novel technologies epitomizes uncertainty. Thus, we cannot predict the future returns on our portfolio. Historically, we have sold 58 percent (26 of our 45) completed private equity investments at a loss. Of the 42 percent (19 of 45) of our sales that were profitable, 16 percent (seven of 45) followed successful IPOs, 18 percent (eight of 45) followed successful mergers and acquisitions (M&A) transactions, and nine percent (four of 45) were private investments in public equities (PIPEs) that we sold successfully once they became registered securities. Altogether, we invested $51,229,202 in these 45 investments and received $143,737,382 when we sold them. Removing the PIPEs transactions from consideration, of our 41 completed transactions, 63 percent (26 of 41) were sold at a loss, 17 percent (seven of 41) were sold following successful IPOs, and 20 percent (eight of 41) were sold in successful M&A transactions. Among the reasons why we might do worse in the future than we have done in the past is that Sarbanes-Oxley legislation has made it more difficult for a company to go public in the U.S. Among the reasons that we might do better is that our deal flow is much better than it was in our formative years. In any case, a lot of the overall return on our current portfolio will depend on whether it produces one or more really big winners, as an early stage, venture-capital portfolio's returns can be dominated by even one such outcome.

In our first quarter report to shareholders for 2007, we had written about Nasdaq's application to the SEC to create a new private exchange system, to be called "Portal," to trade securities issued under SEC Rule 144A. Rule 144A allows for the immediate sale of private placement securities to qualified buyers without being subject to the extensive disclosure and ongoing reporting requirements, including Sarbanes-Oxley, involved in being a publicly held company. On November 12, Nasdaq announced that a dozen Wall Street firms had decided to drop their competing 144A trading systems and use Portal. Portal is scheduled to be operational in the first quarter of 2008. Last year, even without such a central trading platform, the total capital raised under 144A was greater than the combined amount raised on the New York Stock Exchange, Nasdaq, and the American Stock Exchange! We will be watching to see if Portal will prove to be a viable market for venture-capital-backed companies.

As the Compensation Committee of our Board of Directors had intended, our employees have continued to increase their ownership of our Company's shares through net retention of shares as a result of exercise of employee stock options and partial sales of the stock thus acquired. The sales of stock pay for the exercise of the shares and the taxes and commissions thereby triggered and also enable employees to retain a portion of the net proceeds in lieu of cash bonuses. Unlike our competitors, primarily venture capital firms organized as private partnerships, we do not pay cash bonuses in the ordinary course of events. Importantly, employee stock-option exercises have also had the intended effect of generating substantial capital for the Company.

Specifically, since our employee stock option plan was instituted in May 2006, each officer who has exercised options has increased his or her net ownership of our Company's shares. Altogether, they have increased their net ownership by a total of 69,735 shares. The share exercises have generated $12,720,685 in proceeds to our Company, and the partial sales have generated $624,139 in cash for our employees.

The combination of cash generated for our Company by the option exercises and cash retained by our Company because it has not had to pay cash bonuses is one reason why our Company's financial position is so strong. As of September 30, 2007, we have $63,675,852 in U.S. government securities and no debt. We have continued to hold our liquid assets in U.S. government bills and notes rather than in money-market funds or commercial paper. In the turbulent money-market conditions of recent months, this conservative strategy has worked to our advantage, as such holdings have recently appreciated in value, as shorter-term treasury securities have been bid up in the market's flight to quality and safety.

The core of our risk-management strategy is to concentrate our risk in our individual venture-capital investments, in which we are risk seeking rather than risk averse. We seek to balance this deliberate risk-taking not only by maintaining reserves for follow-on and initial investments and for working capital, but also through diversification. Historically, we have invested more than five percent of our gross assets in a single venture-capital holding only a few times, and we currently have no single venture-capital holding that constitutes, either at cost or current value, more than five percent of our gross assets. Moreover, because tiny technology is sets of enabling technologies that apply to many commercial applications in many different vertical industries, we have a reasonable amount of product and industry diversification in our venture-capital portfolio.

In closing, while we are excited by the success of the Nanosphere IPO and its possible implications for the broadly defined nanotechnology space, and we are interested to see if Portal will develop into a viable market for companies like our portfolio companies, we are continuing to focus on patiently building our portfolio companies for the long term. The long term becomes the short term as companies mature. And we are ever mindful that our Company's success, both in the short term and in the long term, will continue to be the product of our portfolio companies' success and the continued support of our fellow shareholders.

Charles E. Harris
Chairman and Chief Executive Officer
Managing Director

Douglas W. Jamison
President and Chief Operating Officer
Managing Director

Michael A. Janse
Executive Vice President
Managing Director

Alexei A. Andreev
Executive Vice President
Managing Director

November 20, 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, the Company's Registration Statement on Form N-2 and the Company's report on Form 10-Q for the quarter ended September 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.

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

ASSETS

	September 30, 2007 (Unaudited)	December 31, 2006
Cash, U.S. government and government agency securities and cash equivalents	$ 63,964,249	$ 60,727,935
Investments, at value	69,270,640	53,667,831
Restricted funds	2,533,929	2,149,785
Receivable from broker	0	819,905
Interest receivable	499,079	625,372
Prepaid expenses	142,459	10,945
Other assets	286,123	326,817
Total assets	$ 136,696,479	$ 118,328,590

LIABILITIES & NET ASSETS

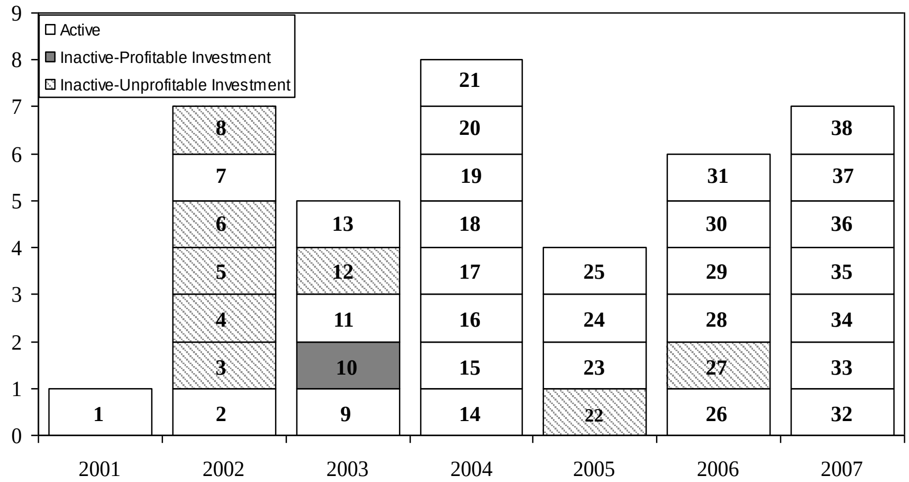
	September 30, 2007 (Unaudited)	December 31, 2006
Accounts payable and accrued liabilities	$ 4,237,657	$ 4,115,300
Accrued profit sharing	0	261,661
Deferred rent	16,225	21,326
Total liabilities	4,253,882	4,398,287
Net assets	$ 132,442,597	$ 113,930,303
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$ 0	$ 0
Common stock, $0.01 par value, 45,000,000 shares authorized at 9/30/07 and 12/31/06; 25,100,598 issued at 9/30/07 and 22,843,757 issued at 12/31/06	251,006	228,438
Additional paid-in capital	158,170,494	129,801,201
Accumulated net realized loss	(12,507,339)	(3,747,912)
Accumulated unrealized depreciation of investments	(10,127,560)	(9,007,420)
Unrecognized net gain on retirement benefit plans	61,527	61,527
Treasury stock, at cost (1,828,740 shares at 9/30/07 and 12/31/06)	(3,405,531)	(3,405,531)
Net assets	$ 132,442,597	$ 113,930,303
Shares outstanding	23,271,858	21,015,017
Net asset value per outstanding share	$ 5.69	$ 5.42

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Investment income:				
Interest from:				
Fixed-income securities	$ 743,375	$ 719,619	$ 2,033,574	$ 2,302,246
Miscellaneous income	39	0	39	7,500
Total investment income	743,414	719,619	2,033,613	2,309,746
Expenses:				
Salaries, benefits and stock-based compensation	3,230,838	3,151,338	8,409,888	4,741,850
Administration and operations	311,332	242,930	1,049,375	971,471
Profit-sharing provision	0	51,545	0	51,545
Professional fees	155,999	95,742	673,261	483,567
Rent	60,314	59,310	178,634	177,929
Directors' fees and expenses	80,364	85,287	333,717	266,089
Depreciation	16,734	16,201	47,955	49,097
Custodian fees	5,428	6,056	17,163	18,618
Total expenses	3,861,009	3,708,409	10,709,993	6,760,166
Net operating loss	(3,117,595)	(2,988,790)	(8,676,380)	(4,450,420)
Net realized gain (loss) from investments:				
Realized gain from investments	14,828	6,420	5,941	19,873
Income tax expense (benefit)	4,083	(242,352)	88,988	(222,815)
Net realized gain (loss) from investments	10,745	248,772	(83,047)	242,688
Net decrease (increase) in unrealized depreciation on investments:				
Change on investments held	3,711,087	151,926	(1,120,140)	(1,317,347)
Net decrease (increase) in unrealized depreciation on investments	3,711,087	151,926	(1,120,140)	(1,317,347)
Net realized and unrealized gain (loss) from investments	3,721,832	400,698	(1,203,187)	(1,074,659)
Net increase (decrease) in net assets resulting from operations	$ 604,237	$ (2,588,092)	$ (9,879,567)	$ (5,525,079)
Per average basic and diluted outstanding share	$ 0.03	$ (0.12)	$ (0.45)	$ (0.27)
Average outstanding shares	23,235,023	20,756,345	22,084,893	20,756,345

*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 September 30, 2007 for the unaudited financial information and notes thereto.

Initial Investments by Year



1	Nantero, Inc.
2	Mersana Therapeutics, Inc.
3	NeoPhotonics Corporation
4	Nanotechnologies, Inc.
5	Optiva, Inc.
6	NanoOpto Corporation
7	Polatis, Inc.
8	Agile Materials and Technologies, Inc.
9	Nanosys, Inc.
10	NanoGram Devices Corporation
11	NanoGram Corporation
12	Chlorogen, Inc.*
13	NeoPhotonics Corporation**
14	Molecular Imprints, Inc.
15	Starfire Systems, Inc.
16	CSwitch, Inc.
17	Crystal IS, Inc.
18	Cambrios, Inc.
19	Solazyme, Inc.
20	Nextreme Thermal Solutions, Inc.
21	Nanomix, Inc.
22	Zia Laser, Inc.*
23	Kereos, Inc.
24	BridgeLux, Inc.
25	Kovio, Inc.
26	Metabolon, Inc.
27	Evolved Nanomaterials Sciences, Inc.*
28	D-Wave Systems, Inc.
29	Innovalight, Inc.
30	SiOnyx, Inc.
31	Xradia, Inc.
32	Adesto Technologies Corporation
33	Ancora Pharmaceuticals, Inc.
34	Ensemble Discovery Corporation
35	Lifco, Inc.
36	BioVex Group, Inc.
37	Q4 2007 investment that has not been publicly announced.
38	Q4 2007 investment that has not been publicly announced.

*has not been sold
**post bankruptcy