



HARRIS & HARRIS GROUP, INC.®

*A Publicly Traded Venture Capital Company Investing in Tiny Technology*

## FIRST QUARTER REPORT 2005

### Fellow Shareholders:

In our report to shareholders for the quarter ended September 30, 2004, we asked you to let us know if you preferred to continue to receive the quarterly reports in printed and mailed form, as opposed to our simply posting them on our website, [www.TinyTechVC.com](http://www.TinyTechVC.com). We received pro and con comments, but there were enough requests for them in written form for us to continue printing and mailing them for the time being. We thank those of you who commented to us on both sides of the issue.

The most significant development during the first quarter was Alexei A. Andreev joining the firm as a Managing Director and as an Executive Vice President. Mr. Andreev is opening an office for us in Northern California, where we have made a number of tiny technology-enabled investments. Prior to joining Harris & Harris Group, he worked as an associate for Draper Fisher Jurvetson, a large venture capital firm that is a leader in investing in nanotechnology, and TLcom Capital Partners, a London-based venture capital fund. Previously, he was an Associate with Renaissance Capital Group/Sputnik Funds, a private equity fund in Moscow. He was also a researcher at the Centre of Nanotechnology, Isan, in Troitsk, Russia, at the Laboratory of Nanophysics. He was graduated with a Ph.D. degree from the Moscow Steel and Alloys Institute, where he had previously received a B.S. degree, with honors, in Engineering/Material Sciences. He also was graduated with an M.B.A. from the Stanford Graduate School of Business. In summary, he brings a combination of scientific expertise in nanotechnology and training and work experience in venture capital that makes him an excellent and appropriate addition to our team.

During the quarter, we made one new investment of \$1,500,000 in Zia Laser, Inc. and five follow-on investments for a total of \$2,244,076, in Cambrios, Inc., Nantero, Inc., Nanomix, Inc., Starfire Systems, Inc., and NanoOpto Corporation. Since our investment in Nantero, Inc., in 2001, our last 22 initial investments have been in tiny technology-enabled companies. Including follow-on investments, we have now invested a cumulative total of \$29,124,638 in tiny technology-enabled companies since 2001. Our deal flow remains robust, and the growth of our tiny technology portfolio on the basis of cost has followed an exponential curve since 2001.

The decline of \$2,233,447 in the first quarter in our net asset value reflected, among other things, the decline of \$2,250,029 in the value of our shares in NeuroMetrix, Inc. (Nasdaq: NURO), which went public in July 2004. Because our 1,137,570 shares of NURO are currently our most highly valued holding, the volatility of NURO's stock price is now a significant influence on our net asset value and net asset value per share. NURO closed on December 31, 2004, at \$11.75, versus \$9.55 on March 31, 2005.

The most recent issue of *Small Times* magazine, dated April 2005, lists the six venture capital rounds in 2005, to the date of publication, that *Small Times* identifies as nanotechnology investments. Harris & Harris Group led one round (Nanomix, Inc.), was the only institutional investor in another (Starfire Systems, Inc.), and participated in two of the others (NanoOpto Corp. and Nantero, Inc.). Only one other venture capital firm was listed as participating in as many as two of the six rounds.

The stock market has been in decline since the beginning of 2005, an adverse environment for initial public offerings of new, technology-driven companies. Moreover, small companies in particular are more hesitant about going public because of the recently increased regulatory burden on publicly traded companies. But this same environment has been propitious for firms such as ours that are in an active investment mode: valuations of technology-based venture capital deals have, by and large, remained reasonable. During this period of stock market weakness, particularly for smaller companies, we have been, as always, appreciative of your support as fellow shareholders.

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 9, 2005

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, 2004, and the Company's report on Form 10-Q for the quarter ended March 31, 2005, 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.

**Unaudited Schedule of Investments\***

(As of March 31, 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	2,000,000	147,724
Series C Convertible Preferred Stock	2,689,103	<u>159,691</u>
		307,415
Crystal IS, Inc. Series A Convertible Preferred	274,100	199,983
CSwitch, Inc. Series A Convertible Preferred Stock	1,000,000	1,000,000
Experion Systems, Inc. Series A Convertible Preferred Stock	294,118	0
Series B Convertible Preferred Stock	35,294	0
Series C Convertible Preferred Stock	222,184	0
Series D Convertible Preferred Stock	64,501	<u>202,103</u>
		202,103
Exponential Business Development Company Limited Partnership Interest	--	0
Heartware, Inc. Series A-2 Non-Voting Preferred Stock	47,620	0
Molecular Imprints, Inc. Series B Convertible Preferred Stock	1,333,333	2,000,000
NanoGram Corporation Series I Convertible Preferred Stock	63,210	21,672
Series II Convertible Preferred Stock	1,250,904	<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	267,857	48,735
Series B Convertible Preferred Stock	3,819,935	1,665,111
Series C Convertible Preferred Stock	1,932,789	842,503
Warrants at \$0.4359 expiring 03/15/10	193,279	<u>0</u>
		2,556,349
Nanopharma Corp. Series A Convertible Preferred Stock	684,516	700,000
Secured Convertible Bridge Note with 25 % Warrants	\$550,000	<u>566,863</u>
		1,266,863
Nanosys, Inc. Series C Convertible Preferred Stock	803,428	1,500,000
Nanotechnologies, Inc. Series B Convertible Preferred Stock	1,538,837	0
Series C Convertible Preferred Stock	473,903	<u>0</u>
		0
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	60,580	9,105
Series 1 Convertible Preferred Stock	1,831,256	2,014,677
Warrants at \$0.15 expiring 3/12/11	30,426	<u>304</u>
		2,024,086
NeuroMetrix, Inc. Common Stock	1,137,570	10,863,793
Nextreme Thermal Solutions, Inc. Series A Convertible Preferred Stock	500,000	500,000
Optiva, Inc. Series C Convertible Preferred Stock	1,249,999	0
Secured Convertible Bridge Note with 50% Preferred Stock Warrant coverage	\$750,000	<u>0</u>
		0
Questech Corporation Common Stock	646,954	724,588
Warrants at \$1.50 expiring 11/16/05	1,250	0
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. Convertible Promissory Note	\$310,000	341,526
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>1,500,000</u>
<b>Total</b>		<b>\$33,709,535</b>

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

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES\***

**ASSETS**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<b>(Unaudited)</b>	
Investments, at value (Cost: \$75,545,747 at 3/31/05, \$77,442,110 at 12/31/04).....	\$ 73,900,723	\$ 76,244,682
Cash and cash equivalents.....	411,956	650,332
Restricted funds.....	1,598,985	1,591,971
Receivable from portfolio company .....	17,100	10,000
Interest receivable .....	164,427	58,960
Income tax receivable .....	2,469	2,480
Prepaid expenses .....	421,347	542,489
Other assets, net of reserve of \$255,486 at 12/31/04.....	255,874	260,537
<b>Total assets</b> .....	<u>\$ 76,772,881</u>	<u>\$ 79,361,451</u>

**LIABILITIES & NET ASSETS**

Accounts payable and accrued liabilities.....	\$ 2,863,830	\$ 2,905,658
Accrued profit sharing.....	0	311,594
Deferred rent.....	33,229	34,930
Deferred income tax liability .....	1,364,470	1,364,470
<b>Total liabilities</b> .....	<u>4,261,529</u>	<u>4,616,652</u>

<b>Net assets</b> .....	<u>\$ 72,511,352</u>	<u>\$ 74,744,799</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, 25,000,000 shares authorized; 19,077,585 issued at 3/31/05 and 12/31/04 .....	190,776	190,776
Additional paid in capital.....	85,658,150	85,658,150
Accumulated net realized loss.....	(6,746,974)	(4,961,123)
Accumulated unrealized depreciation of investments, including deferred tax liability of \$1,540,045 at 3/31/05 and at 12/31/04 .....	(3,185,069)	(2,737,473)
Treasury stock, at cost (1,828,740 shares at 3/31/05 and 12/31/04) .....	<u>(3,405,531)</u>	<u>(3,405,531)</u>

<b>Net assets</b> .....	<u>\$ 72,511,352</u>	<u>\$ 74,744,799</u>
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<b>Shares outstanding</b> .....	<u>17,248,845</u>	<u>17,248,845</u>
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<b>Net asset value per outstanding share</b> .....	<u>\$ 4.20</u>	<u>\$ 4.33</u>
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**CONSOLIDATED STATEMENTS OF OPERATIONS\***

**(Unaudited)**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>March 31, 2005</b>	<b>March 31, 2004</b>
<b>Investment income:</b>		
Interest from:		
Fixed income securities .....	\$ 221,498	\$ 55,853
Portfolio companies .....	38,610	683
<b>Total investment income</b> .....	<u>260,108</u>	<u>56,536</u>
<b>Expenses:</b>		
Profit-sharing provision (reversal).....	(311,594)	0
Salaries and benefits.....	567,691	470,075
Administration and operations.....	321,961	159,299
Professional fees.....	272,465	79,061
Rent .....	48,682	33,737
Directors' fees and expenses .....	85,660	52,446
Depreciation .....	15,269	9,283
Custodian fees .....	5,564	2,500
<b>Total expenses</b> .....	<u>1,005,698</u>	<u>806,401</u>
<b>Net operating loss</b> .....	<u>(745,590)</u>	<u>(749,865)</u>
<b>Net realized (loss) income from investments:</b>		
Realized income (loss) from investments.....	(1,036,044)	793,389
Income tax provision.....	(4,217)	(6,796)
<b>Net realized (loss) income from investments</b> .....	<u>(1,040,261)</u>	<u>786,593</u>
<b>Net realized (loss) income</b> .....	<u>(1,785,851)</u>	<u>36,728</u>
<b>Net (increase) decrease in unrealized depreciation on:</b>		
Investment sales .....	1,363,891	915,118
Investments held.....	(1,811,487)	(131,331)
<b>Net (increase) decrease in unrealized depreciation on investments</b> .....	<u>(447,596)</u>	<u>783,787</u>
<b>Net (decrease) increase in net assets resulting from operations:</b>		
<b>Total</b> .....	<u>\$ (2,233,447)</u>	<u>\$ 820,515</u>
<b>Per average outstanding share</b> .....	<u>\$ (0.13)</u>	<u>\$ 0.06</u>
<b>Average outstanding shares</b> .....	<u>17,248,845</u>	<u>13,798,845</u>

**Portfolio Company Websites**

<b><u>Portfolio Company</u></b>	<b><u>Website Address</u></b>
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
Experion Systems, Inc.	www.experionsystems.com
Exponential Business Development Company	
Heartware, Inc.	
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
Nanotechnologies, Inc.	www.nanoscale.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
Starfire Systems, Inc.	www.starfiresystems.com
Solazyme, Inc.	www.solazyme.com
Zia Laser, Inc.	www.zialaser.com

**Venture Capital Investments at March 31, 2005**

**Investments, at Value**

<b>Tiny Technology</b>	<b>\$22,518,639</b>	<b>66.8%</b>
Cambrios, Inc.	1,294,025	
Chlorogen, Inc.	785,000	
Continuum Photonics, Inc.	307,415	
Crystal IS, Inc.	199,983	
CSwitch, Inc.	1,000,000	
Molecular Imprints, Inc.	2,000,000	
NanoGram Corporation	1,022,395	
Nanomix, Inc.	2,500,000	
NanoOpto Corporation	2,556,349	
Nanopharma Corp.	1,266,863	
Nanosys, Inc.	1,500,000	
Nanotechnologies, Inc.	0	
Nantero, Inc.	2,246,409	
NeoPhotonics Corporation	2,024,086	
Nextreme Thermal Solutions, Inc.	500,000	
Optiva, Inc.	0	
Questech Corporation	724,588	
Solazyme, Inc.	341,526	
Starfire Systems, Inc.	750,000	
Zia Laser, Inc.	1,500,000	
<b>Non-Tiny Technology</b>	<b>\$11,190,896</b>	<b>33.2%</b>
AlphaSimplex Group LLC	125,000	
Experion Systems, Inc.	202,103	
Exponential Business Development Company	0	
Heartware, Inc.	0	
NeuroMetrix, Inc.	10,863,793	
<b>Total*</b>	<b>\$33,709,535</b>	<b>100.0%</b>