

HARRIS & HARRIS GROUP, INC.

Venture Capital for Tiny Technology

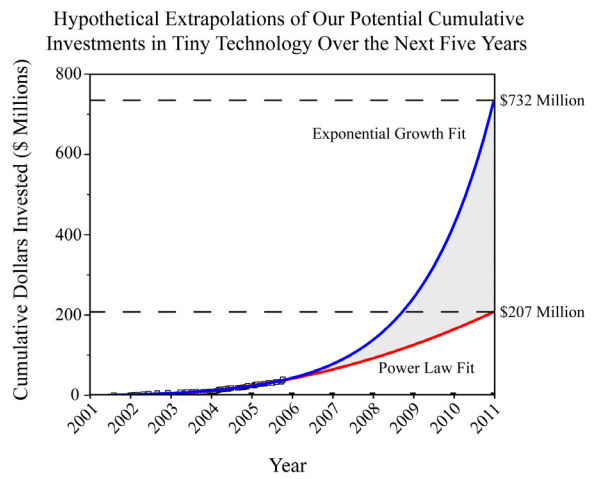
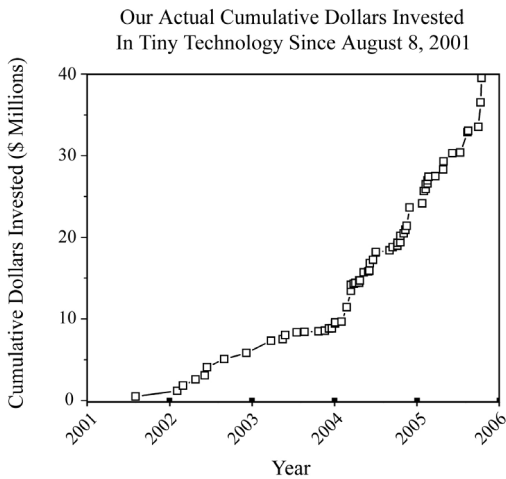
THIRD QUARTER REPORT 2005

FELLOW SHAREHOLDERS:

During the quarter ended September 30, 2005, we sold 3,507,500 shares of our common stock at \$11.25 per share, for net proceeds of \$36,526,567 after underwriting discounts and expenses.

Our pace of investment in tiny technology has accelerated, in concert with increases in our capital, deal flow and investment team. From August of 2001 to the date of this Letter to Shareholders, we have invested cumulatively approximately \$41,270,912 in tiny technology.

As we trace the cumulative cost of our tiny technology investments since August of 2001, and we fit exponential and power law equations to this cumulative cost and use these equations to extrapolate our hypothetical cumulative investments in tiny technology, we see that we would have to invest cumulatively approximately another \$200 to \$700 million to stay on this curve for the next five years.



We suspect that it may be necessary for us to put to work that sort of capital in order to maintain our leadership position amongst venture capital investors in nanotechnology. There is only one other venture capital firm, Draper Fisher Jurvetson, that we can identify as having made approximately as many investments as we have in companies that one might label as nanotechnology-enabled companies.

Assuming that we continue to enjoy a robust deal flow, one of the biggest questions that we put to ourselves internally is, how will we finance our future investments? If we can earn high enough net returns on our existing investments, we could continue to finance our new investments in part by selling more shares of our own common stock from time to time and still produce an attractive rate of growth in our net asset value per share.

To achieve entirely self-financed rapid growth, we would need to experience some timely combination of acquisitions and initial public offerings of companies in our portfolio. For example, when we decide to sell our shares of NeuroMetrix, if we decide not to distribute the capital gains to shareholders, we will pay federal income taxes at the corporate rate of 35 percent on the long-term capital gains and retain the net after-tax proceeds of the sales.

If our retained earnings do not prove sufficient to finance the investments that we need to make in order to maintain our leadership position in venture capital for nanotechnology, we will however seek outside capital as we deem appropriate. We think that it is even more important to try to maintain our leadership position than it is to finance all of our growth internally, if we are forced to choose between these two alternatives.

As always, we are appreciative that, just as we are risk seeking but patient investors, so are our shareholders. We hope that all of our shareholders are ever-mindful of the many risks of our business. Early stage venture capital is risky in general; investing in advanced technology is risky in particular; and, all else being equal, small capitalization, publicly held companies like Harris & Harris Group are riskier than large capitalization publicly held companies.

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

November 18, 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 press release.

**Unaudited Schedule of Investments\***  
(As of September 30, 2005)

<b>Investment</b>	<b>Shares/ Principal</b>	<b>Value</b>
AlphaSimplex Group, LLC Limited Liability Company Interest	--	\$ 125,000
Cambrios Technologies Corporation Series B Convertible Preferred Stock	1,294,025	1,294,025
Chlorogen, Inc. Series A Convertible Preferred Stock	4,478,038	785,000
Crystal IS, Inc. Series A Convertible Preferred Stock	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	187,500	0
Series B Convertible Preferred Stock	22,500	0
Series C Convertible Preferred Stock	222,184	0
Series D Convertible Preferred Stock	64,501	<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	349,092	960,000
Molecular Imprints, Inc. Series B Convertible Preferred Stock	1,333,333	2,000,000
Series C Convertible Preferred Stock	1,250,000	<u>2,500,000</u>
		4,500,000
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	32,490
Series B Convertible Preferred Stock	3,819,935	1,110,073
Series C Convertible Preferred Stock	1,932,789	842,503
Warrants at \$0.4359 expiring 03/15/10	193,279	<u>0</u>
		1,985,066
Nanopharma Corp. Series A Convertible Preferred Stock	684,516	136,903
Secured Convertible Bridge Note with 25 % Warrants	\$733,000	<u>733,000</u>
		869,903
Nanosys, Inc. Series C Convertible Preferred Stock	803,428	1,500,000
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	716,195	67,736
Series 1 Convertible Preferred Stock	1,831,256	2,014,677
Series 2 Convertible Preferred Stock	741,898	878,120
Warrants at \$0.15 expiring 01/26/10	16,364	164
Warrants at \$0.15 expiring 12/05/10	14,063	<u>140</u>
		2,960,837
NeuroMetrix, Inc. Common Stock	1,137,570	33,865,459
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	\$150,000	<u>75,000</u>
		75,000
Polatis, Inc. Series A-1 Convertible Preferred Stock	16,775	47,828
Series A-2 Convertible Preferred Stock	71,611	<u>204,172</u>
		252,000
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	310,000
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>375,000</u>
<b>Total</b>		<b>\$59,800,665</b>

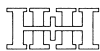
**HARRIS & HARRIS GROUP, INC.<sup>®</sup>**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES\***

	<u>ASSETS</u>	
	<u>September 30, 2005</u>	<u>December 31, 2004</u>
	(Unaudited)	
Cash, U.S. government and government agency securities and cash equivalents .....	\$ 70,548,531	\$ 45,273,054
Investments, at value .....	59,800,665	31,621,960
Restricted funds .....	1,653,040	1,591,971
Receivable from portfolio company .....	0	10,000
Interest receivable .....	168,612	58,960
Income tax receivable .....	11,016	2,480
Prepaid expenses .....	105,069	542,489
Other assets, net of reserve of \$255,486 at 12/31/04 .....	236,248	260,537
<b>Total assets</b> .....	<u>\$ 132,523,181</u>	<u>\$ 79,361,451</u>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
Accounts payable and accrued liabilities .....	\$ 3,346,238	\$ 2,905,658
Accrued profit sharing .....	4,405,953	311,594
Deferred rent .....	29,828	34,930
Deferred income tax liability .....	1,364,470	1,364,470
<b>Total liabilities</b> .....	<u>9,146,489</u>	<u>4,616,652</u>
<b>Net assets</b> .....	<u>\$ 123,376,692</u>	<u>\$ 74,744,799</u>
<b>Net assets are comprised of:</b>		
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 9/30/05 and 25,000,000 shares authorized at 12/31/04; 22,585,085 issued at 9/30/05 and 19,077,585 issued at 12/31/04 .....	225,852	190,776
Additional paid in capital .....	122,149,641	85,658,150
Accumulated net realized loss .....	(14,710,466)	(4,961,123)
Accumulated unrealized appreciation (depreciation) of investments, including deferred tax liability of \$1,540,044 at 9/30/05 and at 12/31/04 .....	19,117,196	(2,737,473)
Treasury stock, at cost (1,828,740 shares at 9/30/05 and 12/31/04) .....	(3,405,531)	(3,405,531)
<b>Net assets</b> .....	<u>\$ 123,376,692</u>	<u>\$ 74,744,799</u>
<b>Shares outstanding</b> .....	<u>20,756,345</u>	<u>17,248,845</u>
<b>Net asset value per outstanding share</b> .....	<u>\$ 5.94</u>	<u>\$ 4.33</u>

**HARRIS & HARRIS GROUP, INC.<sup>®</sup>**  
**CONSOLIDATED STATEMENTS OF OPERATIONS\***  
(Unaudited)

	<u>Three Months Ended Sept. 30</u>		<u>Nine Months Ended Sept. 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Investment income:</b>				
Interest from:				
Fixed-income securities .....	\$ 315,089	\$ 235,778	\$ 743,571	\$ 365,842
Portfolio companies .....	0	17,803	(9,780)	23,506
Other income .....	285	0	5,409	0
<b>Total investment income</b> .....	<u>315,374</u>	<u>253,581</u>	<u>739,200</u>	<u>389,348</u>
<b>Expenses:</b>				
Profit sharing .....	2,393,488	336,820	4,094,359	336,820
Salaries and benefits .....	673,064	419,384	1,855,365	1,384,566
Administration and operations .....	264,130	129,649	1,076,335	475,724
Professional fees .....	124,767	231,144	615,355	389,083
Rent .....	51,996	38,860	151,857	111,515
Directors' fees and expenses .....	64,089	63,188	204,830	156,811
Depreciation .....	17,637	10,958	49,535	29,906
Bank custody fees .....	0	2,351	8,599	8,145
<b>Total expenses</b> .....	<u>3,589,171</u>	<u>1,232,354</u>	<u>8,056,235</u>	<u>2,892,570</u>
<b>Net operating loss</b> .....	<u>(3,273,797)</u>	<u>(978,773)</u>	<u>(7,317,035)</u>	<u>(2,503,222)</u>
<b>Net realized (loss) income on investments:</b>				
Realized (loss) income on investments .....	(240)	2,704	(2,427,469)	798,673
Income tax benefit (provision) .....	13	1,482	(4,839)	(6,426)
<b>Net realized (loss) income on investments</b> .....	<u>(227)</u>	<u>4,186</u>	<u>(2,432,308)</u>	<u>792,247</u>
<b>Net realized loss</b> .....	<u>(3,274,024)</u>	<u>(974,587)</u>	<u>(9,749,343)</u>	<u>(1,710,975)</u>
<b>Net increase in unrealized appreciation / decrease in unrealized depreciation on investments:</b>				
Investment sales .....	0	0	2,956,491	915,118
Investments held .....	10,610,947	2,731,943	18,898,178	1,136,691
Income tax benefit (provision) .....	0	(646,235)	0	(646,235)
<b>Net increase in unrealized appreciation/decrease in unrealized depreciation on investments</b> .....	<u>10,610,947</u>	<u>2,085,708</u>	<u>21,854,669</u>	<u>1,405,574</u>
<b>Net increase (decrease) in net assets resulting from operations:</b>				
<b>Total</b> .....	<u>\$ 7,336,923</u>	<u>\$ 1,111,121</u>	<u>\$ 12,105,326</u>	<u>\$ (305,401)</u>
<b>Per average outstanding share</b> .....	<u>\$ .40</u>	<u>\$ .06</u>	<u>\$ .68</u>	<u>\$ (0.02)</u>
<b>Average outstanding shares</b> .....	<u>18,593,166</u>	<u>17,023,845</u>	<u>17,701,876</u>	<u>14,881,692</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 September 30, 2005 for the unaudited financial information and notes thereto.



HARRIS & HARRIS GROUP, INC.

111 West 57<sup>th</sup> Street  
Suite 1100  
New York, NY 10019  
Third Quarter Report 2005

**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
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
Polatis, Inc.	www.polatis.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 September 30, 2005**

Investments, at Value

<b>Tiny Technology</b>	<b>\$25,810,206</b>	<b>43.2%</b>
Cambrios, Inc.	1,294,025	
Chlorogen, Inc.	785,000	
Crystal IS, Inc.	199,983	
CSwitch, Inc.	1,000,000	
eLite Optoelectronics Inc.	1,000,000	
Kereos, Inc.	960,000	
Molecular Imprints, Inc.	4,500,000	
NanoGram Corporation	1,022,395	
Nanomix, Inc.	2,500,000	
NanoOpto Corporation	1,985,066	
Nanopharma Corp.	869,903	
Nanosys, Inc.	1,500,000	
Nantero, Inc.	2,246,409	
NeoPhotonics Corporation	2,960,837	
Nextreme Thermal Solutions, Inc.	500,000	
Optiva, Inc.	75,000	
Polatis, Inc.	252,000	
Questech Corporation	724,588	
Solazyme, Inc.	310,000	
Starfire Systems, Inc.	750,000	
Zia Laser, Inc.	375,000	
<b>Non-Tiny Technology</b>	<b>\$33,990,459</b>	<b>56.8%</b>
AlphaSimplex Group LLC	125,000	
Experion Systems, Inc.	0	
Exponential Business Development Company	0	
Heartware, Inc.	0	
NeuroMetrix, Inc.	33,865,459	
<b>Total*</b>	<b>\$59,800,665</b>	<b>100.0%</b>