



Dear Fellow Shareholders:

Wise determination is essential to long-term success. Determination is not a synonym for stubbornness. The ability to distinguish between the two is required for wise allocation of resources and is a hallmark of strategic leadership. Good business leaders and good investors have the wisdom both to cut losses when appropriate and, in other circumstances, to press ahead in the face of adversity.

Charles E. Harris  
From "Some Lessons Learned in 42 Years of Business"

We ended 2016 and began 2017 preparing for change at Harris & Harris Group, Inc. On December 20, 2016, we released a [Letter to Shareholders](#) documenting these impending changes. We followed that letter with a shareholder call on January 10, 2017, further explaining our plans. Since then, we have spoken or met in person with many shareholders to discuss and receive feedback on these plans. Overall, we would say the reception has been very positive. We remain on schedule to complete the changes we have detailed by March 31, 2017.

Although the work to change our course remains ahead of the Company, we believe we now have a more focused, lower cost strategy for increasing value for our shareholders. We have proven new leadership in place to execute on this strategy. We believe we have not sacrificed value in our maturing, existing portfolio of investments.

Ahead of our announcements, we took steps in 2016 to reduce expenses and decrease our net operating loss. As reported in the Annual Report on Form 10-K, we increased our investment income by 95 percent and decreased our net operating loss by 37 percent during 2016 as compared with 2015. We decreased our operating expenses for the third consecutive year. Pending approval from shareholders, we currently expect that the transition from a business development company to a registered closed-end fund will enable us to reduce our annual operating expense attributable to regulatory and compliance costs.

Also in 2016, we continued to monetize investments in our publicly traded and privately held portfolio companies. Monetization events in 2016 within our portfolio yielded \$18.1 million in cash on invested capital of \$26.2 million, including the losses we realized in 2016. The sale of our shares in Metabolon, Inc., provided proceeds of \$10.8 million, versus our cost basis of \$7.2 million, for a gain of \$3.6 million. Our ability to monetize portions of our portfolio since 2011, returning a total of \$100.7 million on \$85.9 million of invested capital, permitted us to manage the Company without raising capital and diluting shareholders while our stock traded below net asset value per share ("NAV"), and the cost of capital would have been extremely dilutive to shareholders and NAV.

The changes we have proposed offer more than just reducing expenditures and monetizing assets. Pending approval from shareholders, we will focus on investing in and providing value-add assistance through constructive activism to what management believes are substantially undervalued small, publicly traded companies that have the potential for aggressive growth. This approach is a change in how we think, invest and manage the Company into the future. Rather than making new investments in early-stage, private companies that often take 7 to 15 years to provide returns on invested capital, we believe the new strategy will enable us to generate income and grow NAV over shorter, more predictable timeframes than those we have experienced over the past several years. Our goal is that the result of our constructive activism leads to a reversal in direction for the share prices of these investee companies, thereby creating value for our shareholders.

This change comes with new leadership. Kevin Rendino will be assuming the roles of Chairman and Chief Executive Officer of the Company. Mr. Rendino's distinguished investment career, and his extensive domain knowledge in the area where 180 Degree Capital will be focused, provides demonstrated leadership. For over 20 years, Kevin led the Basic Value Funds at Merrill Lynch and Blackrock. The funds under his management had approximately \$13 billion in total assets. Mr. Rendino was also a member of Blackrock's Leadership Committee. Since 2012, Kevin has served as Chairman and Chief Executive Officer of RGJ Capital, where he leads a value investing approach that is similar to the strategy we will be executing for shareholders under the new corporate name of 180 Degree Capital Corp. Daniel Wolfe, our President, Chief Financial Officer and Chief Compliance Officer will assist Mr. Rendino in executing the new strategy and shepherding our existing portfolio to monetization events over the coming years. Daniel has served Harris & Harris Group since 2004 with successive increases in roles and responsibilities.

The Board of Directors and Management of the Company proposed these changes because we believe our business model had fundamental challenges into the future. The current structure of the public markets, and especially the micro-capitalization public market, have now trickled down to the earliest stages of venture capital. We are capital constrained, and making early-stage, venture capital investments in science-based companies is riskier than it was a decade ago, especially without significant capital to invest during the longer period of time that companies stay private.

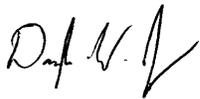
That said, we believe we have a maturing portfolio with some investments that may provide outsized returns to our shareholders without much, if any, further investment from us. We will also remain actively involved in the emerging area of precision health and medicine through investments such as Essential Health Solutions, Inc., TARA Biosystems, Inc., ORIG3N, Inc., and HALE.life Corp., where we have larger investment ownership positions than our more historic investments, and where we believe the business models require less capital to get to cash-flow break-even. We believe this creates an opportunity for our shareholders to be rewarded for holding our stock into the future.

Our NAV was \$2.34 as of December 31, 2016. Since year-end, our holdings in Adesto Technologies Corporation have increased in value. As noted on page 46 of our Annual Report on Form 10-K, the change in the price per share of Adesto Technologies between December 30, 2016, the last trading day of the year, and March 14, 2017, equal an increase of approximately \$0.13 in NAV.

We hope that this small but positive change in valuation, paralleling the changes we believe will be consummated by the end of the first quarter of 2017, may be the first positive step for the new direction of the Company. We would like it to be a jump-start on our future.

Harris & Harris Group has been at the forefront of investing in early-stage, science-based companies for multiple decades. There is significant excitement around some of the growing companies in our existing portfolio, and we look forward to the potential to monetize some of these investments into the future at significant returns. I believe the renaming of our company to 180 Degree Capital Corp., combined with our existing portfolio of transformative companies, can lead to a 180 degree change in the future of this Company as well as the companies in which we invest into the future. I want to thank all our shareholders for their patience and support for the changes we are making. I believe we are following Charlie's comments on wise determination as he would have intended them to be followed.

Thank you.

A handwritten signature in black ink, appearing to read "Douglas Jamison". The signature is stylized with a large, sweeping initial "D" and a long, horizontal stroke extending to the right.

Douglas Jamison  
Chairman and Chief Executive Officer