

HARRIS & HARRIS GROUP INC /NY/  
Form DEF 14A  
March 19, 2014

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.            )

- Filed by the Registrant  x  
Filed by a Party other than the Registrant  ..  
Check the appropriate box:  
 .. Preliminary Proxy Statement  
 .. **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 xDefinitive Proxy Statement  
 .. Definitive Additional Materials  
 .. Soliciting Material Pursuant to §240.14a-12

**Harris & Harris Group, Inc.**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):  
 xNo fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 1, 2014

To the Shareholders of Harris & Harris Group, Inc.:

NOTICE IS HEREBY GIVEN that the 2014 Annual Meeting of Shareholders of Harris & Harris Group, Inc. (the "Company") will be held on Thursday, May 1, 2014, at 4:00 p.m., local time, at Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square (between 42<sup>nd</sup> and 43<sup>rd</sup> Streets), New York, New York 10036. This meeting has been called by the Board of Directors of the Company, and this notice is being issued at its direction. It has called this meeting for the following purposes:

1. To elect eight directors of the Company to hold office until the next annual meeting of shareholders or until their respective successors have been duly elected and qualified;
2. To ratify, confirm and approve the Audit Committee's selection of PricewaterhouseCoopers LLP as the independent registered public accountant for the fiscal year ending December 31, 2014;
3. To cast an advisory vote on executive compensation as described in the Compensation Discussion & Analysis and the accompanying tabular and narrative disclosure as included herein; and
4. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.

**We encourage you to contact us at 877-846-9832, from 9:00 a.m. to 5:00 p.m. EST, if you have any questions.**

Holders of record of the Company's common stock as of the close of business on March 13, 2014, will be entitled to vote at the annual meeting.

**Whether or not you expect to be present in person at the meeting, please sign and date the accompanying proxy card and return it promptly in the enclosed business reply envelope, which requires no postage if mailed in the United States, so you will be represented at the annual meeting. Even if you vote your shares prior to the meeting, you still may attend the meeting and vote your shares in person.**

By Order of the Board of Directors,

March 31, 2014

New York, New York Sandra M. Forman  
Secretary

**IMPORTANT: PLEASE MAIL YOUR PROXY PROMPTLY IN THE ENCLOSED ENVELOPE. THE MEETING DATE IS MAY 1, 2014.**

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**Harris & Harris Group, Inc.**

1450 Broadway, 24<sup>th</sup> Floor  
New York, New York 10018  
(212) 582-0900

**PROXY STATEMENT**

**FOR THE**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON MAY 1, 2014**

Our Board of Directors (“Board”) is sending you this proxy statement to ask for your vote as a shareholder of Harris & Harris Group, Inc. (the “Company,” “we,” “us” or “our”) on certain matters to be voted on at our upcoming 2014 Annual Meeting of Shareholders (the “Annual Meeting”), which will be held on Thursday, May 1, 2014, at 4:00 p.m., local time, at Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square (between 42<sup>nd</sup> and 43<sup>rd</sup> Streets), New York, New York 10036, and at any postponements or adjournments thereof. We are mailing this proxy statement and the accompanying notice and proxy card, along with our Company's Annual Report for the fiscal year ended December 31, 2013, on or about March 31, 2014.

**ABOUT THE MEETING**

**What Is The Purpose of The Annual Meeting?**

At the Annual Meeting, you will be asked to vote on the following proposals:

1. To elect eight directors of the Company to hold office until the next annual meeting of shareholders or until their respective successors have been duly elected and qualified (“Election of Directors Proposal”);
2. To ratify, confirm and approve the Audit Committee's selection of PricewaterhouseCoopers LLP as the independent registered public accountant for the fiscal year ending December 31, 2014 (“Ratification of Auditor Proposal”);
- 3.

To cast an advisory vote on executive compensation as described in the Compensation Discussion & Analysis and the accompanying tabular and narrative disclosure as included herein (“Advisory Vote on Compensation Proposal”); and

4. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.

We are not aware of any other matter that will be presented for your vote at the Annual Meeting.

### **Who Is Entitled To Vote?**

Only shareholders of record at the close of business on the record date, March 13, 2014, are entitled to receive notice of and to vote the shares of our common stock that they held on the record date at the Annual Meeting, or any postponements or adjournments thereof. Each outstanding share of common stock entitles its holder as of the record date to cast one vote on each matter acted upon at the Annual Meeting. As of the record date, the Company had 31,197,438 shares of common stock outstanding (32,728,316 shares including restricted stock with voting rights). If your shares are held for your account by a broker, bank or other institution or nominee, you may vote such shares at the Annual Meeting only if you obtain proper written authority from your institution or nominee that you present at the Annual Meeting.

### **How Is A Quorum Determined?**

Approval of any of the matters submitted for shareholder approval requires that a quorum be present. Our Bylaws provide that a majority of the shareholders entitled to vote, represented in person or by proxy, is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker “non-votes” will be counted as shares present at the Annual Meeting for purposes of determining the existence of a quorum. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner or other persons entitled to vote.

### **How Can I Vote?**

We encourage you to vote your shares, either by voting in person at the Annual Meeting or by granting a proxy (i.e., authorizing someone to vote your shares). If you properly sign and date the accompanying proxy card and the Company receives it in time for the Annual Meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specified. **If you give no instructions on the proxy card, the shares covered by the proxy card will be voted FOR the election of the nominees as directors and FOR the other matters listed in the accompanying Notice of Annual Meeting. If any other matters properly come before the Annual Meeting, the persons named on the proxies will vote upon such matters at their discretion.**

### **What Does It Mean If I Receive More Than One Proxy Card?**



If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

## **What Is Required To Approve Each Proposal?**

Subject to the rules for broker non-votes and abstentions discussed below:

*Election of Directors.* For the Election of Directors Proposal, the directors will be elected by a plurality of the votes cast (that is, the eight nominees who receive more affirmative votes than any other nominees will be elected).

*Ratification of Auditor.* For the Ratification of Auditor Proposal, the proposal will be approved if a majority of the votes cast are cast in favor.

*Advisory Vote on Executive Compensation.* For approving, on an advisory basis, the Advisory Vote on Compensation Proposal, the proposal will be approved if a majority of the votes cast are cast in favor. Although the vote is non-binding on the Company, the Board will consider the outcome of the vote when making future compensation decisions.

*Other Matters.* All other matters being submitted to a shareholder vote pursuant to the Notice of Annual Meeting will be approved if a majority of the votes cast on a particular matter are cast in favor of that matter.

## **What Happens If I Abstain?**

For purposes of the Ratification of Auditor Proposal, the Advisory Vote on Compensation Proposal and unspecified matters that come before the meeting, votes withheld or abstentions will not be counted as votes cast on the matter and will have no effect on the result of the vote. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. If your broker holds your shares in its “street” name, the broker may not vote your shares on the Election of Directors Proposal.

## **What Happens If A Quorum Is Not Present At The Meeting?**

If a quorum is not present at the scheduled time of the Annual Meeting, we may adjourn the meeting, either with or without the vote of shareholders. If we propose to have the shareholders vote whether to adjourn the Annual Meeting, the proxy holders will vote all shares for which they have authority in favor of the adjournment. We may also adjourn the Annual Meeting if for any reason we believe that additional time should be allowed for the solicitation of proxies. An adjournment will have no effect on the business that may be conducted at the Annual Meeting.

### **Who Will Bear The Costs Of This Solicitation?**

Proxies are being solicited by Phoenix Advisor Partners, pursuant to its standard contract as proxy solicitor, the cost of which will be borne by us and is estimated to be approximately \$7,000 plus out-of-pocket expenses. We will pay the cost of this solicitation of proxies by mail. Our officers and regular employees may also solicit proxies in person or by telephone without additional compensation. We will make arrangements with brokerage houses, custodians, nominees and other fiduciaries to send proxy materials to their principals, and we will reimburse these persons for related postage and clerical expenses. It is estimated that those costs will be approximately \$45,000.

### **May I Revoke My Vote?**

Any proxy given pursuant to this solicitation may be revoked by a shareholder at any time, before it is exercised, by written notification delivered to our Secretary, by voting in person at the Annual Meeting, or by executing another proxy bearing a later date.

### **What Are the Deadlines to Nominate Directors or to Propose Other Business for Consideration at the 2015 Annual Meeting of Shareholders?**

Under Securities and Exchange Commission (“SEC”) rules, any shareholder proposals intended to be presented for inclusion in our proxy statement and form of proxy for the next Annual Meeting of Shareholders to be held in 2015 must be received in writing by the Secretary of the Company at Harris & Harris Group, Inc., 1450 Broadway, 24<sup>th</sup> Floor, New York, New York 10018, no later than December 1, 2014, in order for such proposals to be considered for inclusion in the proxy statement and form of proxy relating to the 2015 Annual Meeting of Shareholders.

Shareholders who do not wish to follow the SEC rules for submitting a proposal must notify the Company in accordance with the provisions of the Company's Bylaws. Under our Bylaws, nominations for director may be made only by the Board, by the Nominating Committee, or by a shareholder entitled to vote who has delivered written notice to our Secretary (containing certain information specified in the Bylaws) not less than 90 days nor more than 120 days prior to the anniversary of the date of the immediately preceding Annual Meeting of Shareholders (i.e., between January 1, 2015, and January 31, 2015); provided, however, that in the event that the Annual Meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the Annual Meeting was mailed or such public disclosure of the date of the Annual Meeting was made, whichever first occurs. Proposals must also comply with the other requirements contained in the Company's Bylaws. Submission of a proposal does not guarantee inclusion in the proxy statement, as the requirements of certain federal laws and regulations must be met by such proposals.

Rule 14a-4 of the SEC's proxy rules allows us to use discretionary voting authority to vote on matters coming before an annual meeting of shareholders, if we do not have notice of the matter at least 45 days before the anniversary of the date on which we first mailed our proxy materials for the prior year's annual meeting of shareholders or the date specified by the advance notice provision in our Bylaws. Our Bylaws contain such an advance notice provision as described above. For our annual meeting of shareholders expected to be held in May of 2015, shareholders must submit such written notice to our Secretary in accordance with our advance notice provision, as described above.

A copy of the full text of the Bylaw provisions discussed above may be obtained by writing to our Secretary.

How Many Shares Do the Company's Principal Shareholders, Directors and Executive Officers Own?

Set forth below is information, as of March 13, 2014, with respect to the beneficial ownership of our common stock by (i) each person who is known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock, (ii) each of our directors and nominees, (iii) each of our named executive officers (as defined below) and (iv) all of our directors and executive officers as a group. Except as otherwise indicated, to our knowledge, all shares are beneficially owned and investment and voting power is held by the persons named as owners. None of the shares owned by directors or officers have been pledged. Some of the information in the table below is from publicly available information that may be as of dates earlier than March 13, 2014. The percentage of ownership is based on 31,197,438 shares of common stock outstanding as of March 13, 2014, together with the exercisable options and/or shares of restricted stock for such shareholder, as applicable. In computing the percentage ownership of a shareholder, shares that can be acquired upon the exercise of outstanding options or shares of restricted stock are not deemed outstanding for purposes of computing the percentage ownership of any other person. Unless otherwise provided, the address of each holder is c/o Harris & Harris Group, Inc., 1450 Broadway, 24<sup>th</sup> Floor, New York, New York 10018.

| Name and Address of Beneficial Owner   | Amount and Nature of Beneficial Ownership <sup>(1)</sup> | Percentage of Outstanding Common Shares Owned |
|--|--|---|
| Independent Directors:   |  |   |
| W. Dillaway Ayres, Jr.   | 38,707 <sup>(2)</sup>                                    | *   |
| Dr. Phillip A. Bauman  | 63,843 <sup>(2)(3)</sup>                                 | *   |
| Stacy R. Brandom <sup>(4)</sup>  | 0  | *   |
| Lucio L. Lanza   | 34,406 <sup>(2)</sup>                                    | *   |
| Charles E. Ramsey  | 75,534 <sup>(2)(5)</sup>                                 | *   |
| Richard P. Shanley   | 46,350 <sup>(2)</sup>                                    | *   |
| Bruce W. Shewmaker   | 16,634 <sup>(2)</sup>                                    | *   |
| Interested Directors:  |  |   |
| Douglas W. Jamison   | 379,194 <sup>(6)</sup>                                   | 1.2   |
| Named Executive Officers:  |  |   |
| Alexei A. Andreev  | 308,611 <sup>(6)</sup>                                   | 1.0   |
| Misti Ushio  | 295,472 <sup>(6)</sup>                                   | *   |
| Daniel B. Wolfe  | 330,961 <sup>(6)(7)</sup>                                | 1.1   |
| Patricia N. Egan   | 103,985 <sup>(8)</sup>                                   | *   |
| All directors and executive officers as a group (14 persons)   | 1,980,764 <sup>(9)</sup>                                 | 6.1   |
| Five Percent Shareholders:   |  |   |
| Granaham Investment Management, Inc.<br>275 Wyman Street<br>Waltham, MA 02451  | 2,008,636 <sup>(10)</sup>                                | 6.4   |
| Susan T. Harris<br>c/o Lawrence B. Thompson, Esq.<br>Emmet, Marvin & Martin, LLP<br>120 Broadway<br>New York, NY 10271 | 1,736,515 <sup>(11)</sup>                                | 5.4   |

\* Less than 1 percent.

<sup>(1)</sup> Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934 (the "1934 Act").

<sup>(2)</sup> Includes 3,333 shares of restricted stock that are subject to forfeiture provisions.

<sup>(3)</sup>

Includes 5,637 shares owned by Ms. Milbry C. Polk, Dr. Bauman's wife; 100 shares owned by Milbry Polk-Bauman, Dr. Bauman's daughter; and 100 shares owned by Mary Polk-Bauman, Dr. Bauman's daughter. Ms. Milbry C. Polk is the custodian for Mary Polk-Bauman's account.

(4) Ms. Brandom was appointed to the Board of Directors as of January 1, 2014.

(5) All shares are owned jointly with wife.

(6) Includes 250,200 shares of restricted stock that are subject to forfeiture provisions.

(7) Includes 4,850 shares owned jointly with wife.

(8) Includes 91,740 shares of restricted stock that are subject to forfeiture provisions.

(9) Includes 1,346,058 shares of restricted stock that are subject to forfeiture provisions.

(10) Based on information obtained in a Schedule 13G filed on February 14, 2014. Granaham Investment Management, Inc., has sole dispositive power for these shares and sole power to vote 17,998 of these shares.

(11) Based on information obtained in a 13D/A filed on February 22, 2010, includes 1,128,261 shares that can be acquired upon the exercise of outstanding options.



Set forth below is the dollar range of equity securities beneficially owned by each director and nominee as of March 13, 2014.

| Name of Director or Nominee | Dollar Range of Equity Securities<br>Beneficially Owned <sup>(1)(2)(3)</sup> |
|-----------------------------|--|
|-----------------------------|--|

Independent Directors

|                        |                      |
|------------------------|----------------------|
| W. Dillaway Ayres, Jr. | Over \$100,000       |
| Dr. Phillip A. Bauman  | Over \$100,000       |
| Stacy R. Brandom       | \$0                  |
| Lucio A. Lanza         | Over \$100,000       |
| Charles E. Ramsey      | Over \$100,000       |
| Richard P. Shanley     | Over \$100,000       |
| Bruce W. Shewmaker     | \$50,001 - \$100,000 |

Interested Directors

|                                   |                |
|-----------------------------------|----------------|
| Douglas W. Jamison <sup>(4)</sup> | Over \$100,000 |
|-----------------------------------|----------------|

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) under the 1934 Act.

(2) The dollar ranges are: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 and over \$100,000.

(3) The dollar ranges are based on the price of the equity securities as of March 13, 2014.

(4) Denotes an individual who is an “interested person” as defined in the Investment Company Act of 1940 (the “1940 Act”).

## ELECTION OF DIRECTORS

(Proposal No. 1)

The eight nominees listed below have been nominated to serve as our directors until the next annual meeting or until their respective successors are duly elected and qualified. All nominees currently serve as directors. Although it is not anticipated that any of the nominees will be unable or unwilling to serve, in the unexpected event that any such nominees should become unable or decline to serve, it is intended that votes will be cast for substitute nominees designated by our present Board.

THE BOARD RECOMMENDS THAT YOU VOTE “FOR” ALL OF THE NOMINEES.

### Nominees

Certain information, as of March 13, 2014, with respect to each of the eight nominees for election at the Annual Meeting is set forth below, including their names, ages and a brief description of their recent business experience and qualifications, including present occupations and employment, certain directorships held by each and the year in which each became a director of the Company. All of the nominees have agreed to serve for a one-year term if elected and consent to being referred to in this Proxy Statement. The nominees for election as directors of the Company have been divided into two groups — interested directors and independent directors. Interested directors are “interested persons” as defined in the 1940 Act. We do not currently have an advisory board.

### **Interested Directors**

**Douglas W. Jamison.** Mr. Jamison, age 44, has served as the Company’s Chairman and Chief Executive Officer since January 2009, as President and as Chief Operating Officer from January 2005 through December 2008, as Treasurer from March 2005 to May 2008, as a Managing Director since January 2004, as Chief Financial Officer from January 2005 through December 2007 and as Vice President from September 2002 through December 2004. He has been a member of our Board since May 2007. Since January 2009, he has served as Chairman and Chief Executive Officer of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company; since January 2005, he has served as a Director; and from January 2005 to December 2008, he served as President. Mr. Jamison is a director of HzO, Inc., ProMuc, Inc. and Produced Water Absorbents, Inc., all privately held companies in which we have investments. He is a board observer of ABSMaterials, Inc., and Metabolon, Inc., privately held companies in which we have investments. He is Co-Editor-in-Chief of “Nanotechnology Law &

Business.” From 1997 to 2002, he worked as a senior technology manager at the University of Utah Technology Transfer Office, where he managed intellectual property in physics, chemistry and the engineering sciences. He was graduated from Dartmouth College (B.A.) and the University of Utah (M.S.). We believe Mr. Jamison is qualified to serve on our Board because of his intimate knowledge of our operations through his day-to-day leadership as Chief Executive Officer of the Company along with his comprehensive experience on the boards of directors of many of our private portfolio companies.

Independent Directors

**W. Dillaway Ayres, Jr.** Mr. Ayres, age 63, has served as a member of our Board since November 2006. Since May 2012, he has served as a member of the Board of Directors of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. He has served as the Chief Operating Officer of Cold Spring Harbor Laboratory, a research and educational institution in the biological sciences, since November 2000. Prior to joining Cold Spring Harbor Laboratory in 1998, Mr. Ayres had a 20-year business career during which he worked as a corporate executive at Union Carbide, American Express and American Broadcasting Corporation. He has also co-founded a venture capital-backed internet company and worked for five years in investment banking and private equity at Veronis Suhler & Associates in New York where he was a Managing Director. He was graduated from Princeton University (A.B.) and from the Columbia University Graduate School of Business (M.B.A.). We believe Mr. Ayres is qualified to serve on our Board because of his venture capital, investment banking and private equity experience, as well as his experience as a corporate executive spanning the length of his career. Additionally, his managerial role at a reputable research and educational institution in biological sciences as well as his expertise and credit-related experience for the institutions he has managed, further qualify him for his roles as a Director. His years of managerial experience also qualify him for his role as Chairman of the Compensation Committee.

**Dr. Phillip A. Bauman.** Dr. Bauman, age 58, has served as a member of our Board since February 1998. Since May 2012, he has served as a member of the Board of Directors of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. He is a Senior Attending of Orthopaedic Surgery at the Roosevelt Hospital Center at Mt. Sinai in Manhattan, and from 2000 to 2013, he has served as an elected member of the Executive Committee of the Medical Board of St. Luke's/Roosevelt Hospital. Since 2013, he has served on the Executive Committee of the Medical Board at the Roosevelt Hospital at Mt. Sinai. He is a founding member and has served on the Board of Managers of the Hudson Crossing Surgery Center from 2005 through 2012 until it was acquired by Amsurg in December 2013 and until 2013, was an Assistant Professor of Orthopaedic Surgery at Columbia University. Since 1994, he has been Vice President of Orthopaedic Associates of New York. He has consulted for venture capital firms, including Skyline Venture Partners, a venture capital firm that specializes in healthcare companies. He is an active member of the American Academy of Orthopaedic Surgeons, the American Orthopaedic Society for Sports Medicine, the American Orthopaedic Foot and Ankle Society, the New York State Society of Orthopaedic Surgeons, the New York State Medical Society and the American Medical Association. He was graduated from Harvard College (A.B.), Harvard University (A.M.) and the College of Physicians and Surgeons at Columbia University (M.D.). We believe Dr. Bauman is qualified to serve on our Board because of his expertise in the area of the life sciences, one of the three sectors in which we invest. His medical background and his work in venture capital give him an in-depth understanding of risks associated with the structuring of investments in life sciences-related companies.

**Stacy R. Brandom.** Ms. Brandom, age 56, has served as a member of our Board since January 1, 2014. Since March 6, 2014, she has served as a member of the Board of Directors of H&H Ventures Management, Inc. (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. Since October 2009, Ms. Brandom has been an Executive Vice President and Chief Financial Officer of Trinity Wall Street, an historic Anglican church in lower Manhattan, N.Y. Prior to joining Trinity Wall Street, she was a Managing Advisor of Brandom Advisors, from 2008 to 2009. Ms. Brandom served as Chief Financial Officer and Managing Director of Citi Smith Barney from 2005 to 2007. She held various positions at JPMorgan Chase and its predecessor firms from 1984 to 2005, including Chief Financial Officer of JP Morgan Chase Corporate Sector and Chase Middle Market Group; Head of Strategy and Administration, Corporate Business Service of JP Morgan Chase; Head of Strategy and Administration and Managing Director, Global Investment Banking (Chase); Head of Strategy and Managing Director, Global Bank (Chemical Bank, pre Chase merger). She was graduated from the University of North Texas (B.B.A.) and the Kellogg School of Business at Northwestern University (M.B.A.). She is a member of the board of directors of Bridges to Community, a non-governmental organization dedicated to construction projects in Nicaragua, and a member of the board of directors of Westchester Jazz Orchestra. She was recommended to our Board of Directors by Charles E. Ramsey, the Chairperson of our Nominating and Management Development Committee. We believe Ms. Brandom is qualified to serve on our Board because of her financial and compliance experience and her connections in the investment banking industry.

**Lucio L. Lanza.** Mr. Lanza, age 69, has served as a member of our Board since August 2010. Since May 2012, he has served as a member of the Board of Directors of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. He is the Managing Director of Lanza techVentures, an early-stage venture capital and investment firm, which he founded in January 2001. Since 2008, he has been a General Partner and the Chief Technology Strategist of Radnorwood Capital, LLC, an investor in public technology companies. Previously, he was a General Partner of US Venture Partners, a venture capital firm. Throughout his career, he has held senior level and strategic positions at Cadence Design Systems, Inc., EDA Systems, Inc., Daisy Systems, Corp., Intel Corp., Olivetti Corporation and as a non-executive director of ARM Holdings plc. He is Chairman and a Director of PDF Solutions, a public company in the semiconductor yield management business, and a Director of several privately held companies: Adapt-IP Design Systems, Altia Systems, Numerate, Inc., Forte DS, Critical Blue, Gradient DA, Jasper DA, ChipPath Design Systems and Sigmatix, Inc. He is Chairman of BlueWave Design Automation. He was graduated from Politecnico of Milano with a doctorate in electronic engineering. We believe Mr. Lanza is qualified to serve on our Board because of his experience as a senior executive of venture capital firms and his experience on other private and public boards of directors. We believe he brings business, finance and risk assessment skills to his Board service with the Company. His venture capital experience facilitates an in-depth understanding of risks associated with the structuring of investments in technology-related companies and assists us in the markets in which we compete. Also, Mr. Lanza's risk management expertise and venture capital experience qualify him to serve as Chairman of our Valuation Committee.

**Charles E. Ramsey.** Mr. Ramsey, age 71, has served as a member of our Board since October 2002. Since May 2012, he has served as a member of the Board of Directors of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. Since 1997, he has been a consultant in the area of human resources and venture capital. He is a retired founder and principal of Ramsey/Beirne Associates, Inc., an executive search firm that specialized in recruiting top officers for high technology companies, many of which were backed by venture capital. He is a former member of the board of directors and Chairman Emeritus of Bridges to Community, a non-governmental organization dedicated to construction projects in Nicaragua and the Dominican Republic. As Chairman Emeritus, he served on the Executive, Personnel and Administration and Fund Development Committees. He was graduated from Wittenberg University (B.A.). We believe Mr. Ramsey is qualified to serve on our Board because of his long career in the field of human resources, where he recruited top officers and directors for high technology companies in the venture capital space. Also, Mr. Ramsey's expertise and experience in human resources qualify him to serve as Chairman of our Nominating and Management Development Committee.

**Richard P. Shanley.** Mr. Shanley, age 66, has served as a member of our Board since March 2007. He has also served as our Lead Independent Director since May 2013. Since May 2012, he has served as a member of the Board of Directors of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. From February 2001 to December 31, 2006, he was a partner of Deloitte & Touche LLP. During his over 30 years of public accounting experience, he served as lead audit partner on numerous audit engagements for public and private companies and companies making public stock offerings. He served as lead audit partner primarily for biotechnology, pharmaceutical and high-tech companies, including companies enabled by nanotechnology. He has been actively involved on the Biotech Council of New Jersey, the New Jersey Technology Council, the New York Biotechnology Association, the Connecticut Venture Group, the Biotechnology Industry Organization and the NanoBusiness Alliance. He is Chairman of the board of directors of Redpoint Bio Corporation, a publicly held biotechnology company. He is an active member of the New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants. He is a licensed Certified Public Accountant in New York. He was graduated from Fordham University (B.S.) and Long Island University (M.B.A.). We believe Mr. Shanley is qualified to serve on our Board because of his extensive prior financial, valuation and accounting experience, as well as his experience with companies investing in nanotechnology. Mr. Shanley's career as a certified public accountant and as a partner at a large accounting firm qualify him for his role as Chairman of the Audit Committee. Mr. Shanley's knowledge of the financial, valuation and accounting areas, further qualifies him to be our Lead Independent Director.

**Bruce W. Shewmaker.** Mr. Shewmaker, age 68, has served as a member of our Board since August 2011. Since May 2012, he has served as a member of the Board of Directors of H&H Ventures Management, Inc., (formerly named Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. Since November 2003, Mr. Shewmaker has been a Managing Director of MVC Capital, Inc., a publicly traded business development company listed on the New York Stock Exchange (NYSE: MVC) and a Senior Managing Director of The Tokarz Group Advisers, a registered investment adviser that advises MVC. Prior to joining MVC, he co-founded and served as an adviser to CrossBow Ventures, a private investment fund and SBIC. From 1999 to 2001, he was a Managing Director of E\*Offering Corp., an investment banking firm that was later merged into WIT Sound View Group. From 1997 to 1998, Mr. Shewmaker served as President and Director of The U.S. Russia Investment Fund, where he managed a staff of 60 people. Throughout his career, he has held senior level and strategic positions at New Century Management, Vector Venture Partners Group, Merrill Lynch R&D Management, Inc., Merrill Lynch Oklahoma Venture Partners, L.P. and Merrill Lynch Venture Capital, Inc. He is a Director of Garrison Capital Inc., a publicly-traded business development company (NASDAQ: GARS), several privately held companies: Foliofn, Inc., Advantage Insurance Holdings, Ltd., and Vestal Manufacturing Enterprises, Inc. and on the Board of Managers of MVC Partners, LLC, a wholly-owned portfolio company of MVC. He was graduated from the Ohio State University (B.S.) and has completed graduate work in Management Studies at New York University's Leonard N. Stern School of Business. We believe Mr. Shewmaker is qualified to serve on our Board because of his financial, managerial and business experience in the venture capital and private equity industries, as well as his experience and knowledge of the regulatory framework applicable to investment companies, particularly business development companies.

#### Board and Committees

In 2013, there were six meetings of the Board, and the full Board acted four times by unanimous written consent.

While Mr. Shewmaker only attended 74 percent of the total meetings of the Board of Directors and the Audit, Nominating and Management Development, Independent Director and Valuation Committees on which he served in 2013, five of the meetings that he did not attend were the result of medical issues. If those five absences were excluded from the number of absences, Mr. Shewmaker would have attended 100 percent of the total meetings of the Board of Directors and of the Audit, Nominating and Management Development, Independent Director and Valuation Committees on which he served in 2013. No other director attended fewer than 75 percent of the total Board and committee meetings on which he served in 2013.

Our policy is that our directors are encouraged to attend annual meetings of shareholders. In 2013, all of the Company's directors attended the annual meeting of shareholders.

#### **Board Leadership Structure**

The Board does not require the separation of the offices of the Chairman of the Board and the Chief Executive Officer. The Board believes it should be free to choose its Chairman of the Board in any way that it deems best for the Company at any given point in time. Mr. Jamison, the current Chairman of the Board and Chief Executive Officer, is an “interested person” of the Company (as defined in Section 2(a)(19) of the 1940 Act). At present, the Board believes that Mr. Jamison’s service as both Chairman of the Board and Chief Executive Officer is in the best interest of the Company and its shareholders. Mr. Jamison possesses detailed and in-depth knowledge of the day-to-day and overall issues, opportunities and challenges facing the Company and its business and is thus best positioned to develop agendas that ensure that the Board’s time and attention are focused on the most critical matters.



His combined role enables decisive leadership, ensures clear accountability, and enhances the Company's ability to communicate its message and strategy clearly and consistently to the Company's shareholders, employees, and portfolio companies. The Board also believes that combining the Chairman of the Board and Chief Executive Officer roles is appropriate given our current asset size.

The Board members also believe that the Lead Independent Director plays an important role and fulfills most of the benefits to the Company of having an independent Chairman without the full expense of hiring an independent Chairman. The Lead Independent Director's duties include acting as a liaison between the independent directors and the Chairman regarding any specific feedback or issues, providing the Chairman with input regarding agenda items for Board and committee meetings, coordinating with the Chairman to provide information to the independent directors regarding their duties, coordinating the activities of the independent directors, including performing the role of Chairman of the Independent Directors Committee, coordinating the agenda for and moderating sessions of the Board's independent directors and other non-employee directors, and facilitating communications between the other members of the Board, between the Board and senior management, and between the Chief Compliance Officer and the Board. The Board believes that this approach appropriately and effectively complements the combined Chief Executive Officer/Chairman structure.

In addition, all of the Directors, other than Mr. Jamison, are independent, and the Board believes that the independent directors provide effective oversight of management. Moreover, in addition to feedback provided during the course of Board meetings, the independent directors have regular executive sessions. Additionally, the independent directors serve as the chairpersons for all Board Committees (other than the Executive Committee) and meet on a quarterly basis in executive session with the Chief Compliance Officer.

### **Board's Role in Risk Oversight**

The Board as a whole, under the direction of the Lead Independent Director, has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant Board committees that report on their deliberations to the Board. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide visibility to the Board about the identification, assessment and management of critical risks and the controls that management uses to mitigate those risks. Members of the senior management team meet annually to review the current risks for the Company's business, and to ensure that the compliance policies and procedures are revised along with changes to the current risks. The risks and the amended policies and procedures are presented to the Board for its review and input at least annually. In addition, members of the senior management team meet quarterly to review strategic risks and report to the Board about these discussions as appropriate.

Additionally, the Board committees assist the full Board in risk assessment. The Independent Directors Committee meets regularly in executive session, with and without the Chief Compliance Officer, and oversees compliance and strategic risks of the Company. It also oversees the compliance policies and procedures of the Company and its service providers. The Audit Committee oversees compliance by the Company with legal and regulatory requirements. Specifically, the Audit Committee discusses with the Company's management and independent registered public accountants the integrity of the Company's financial reporting processes and controls, particularly the controls in areas representing significant financial and business risks, and reviews the Company's compliance with certain regulatory requirements. The Audit Committee Chairman meets independently with the registered public accountants and the other outside accounting firms. The Compensation Committee reviews risks related to compensation policies and procedures. The Nominating and Management Development Committee considers risk assessment skills when considering nominees for the Board. The Board has appointed all independent members of the Board to the Valuation Committee to have oversight of valuation risk.

### Communications with the Board

Shareholders and other interested parties may contact the Board, our Lead Independent Director, or any member of the Board by mail. To communicate with the Board, the Lead Independent Director or any member of the Board, correspondence should be addressed to the Board or the Board members with whom you wish to communicate, by either name or title. All such correspondence should be sent c/o Harris & Harris Group, Inc., 1450 Broadway, 24<sup>th</sup> Floor, New York, N.Y. 10018. Such correspondence will be forwarded to the appropriate Board member or members after screening to eliminate marketing and junk mail.

### Board Committees

The Company's Board currently had six committees comprised of the following members in 2013, **all of whom except Mr. Jamison are independent under the rules of the Nasdaq Global Market and "not interested" directors for the purposes of the 1940 Act:**

| Executive                         | Audit                             | Compensation                     |
|-----------------------------------|-----------------------------------|----------------------------------|
| Douglas W. Jamison <sup>(1)</sup> | Richard P. Shanley <sup>(1)</sup> | W. Dillaway Ayres <sup>(1)</sup> |
| W. Dillaway Ayres                 | W. Dillaway Ayres                 | Dr. Phillip A. Bauman            |
| Lucio L. Lanza                    | Lucio L. Lanza                    | Lucio L. Lanza                   |
| Charles E. Ramsey                 | Bruce W. Shewmaker                | Charles E. Ramsey                |
| Richard P. Shanley                |                                   |                                  |
| Nominating                        | Valuation                         | Independent Directors            |

|                                  |                               |                                   |
|----------------------------------|-------------------------------|-----------------------------------|
| Charles E. Ramsey <sup>(1)</sup> | Lucio L. Lanza <sup>(1)</sup> | Richard P. Shanley <sup>(1)</sup> |
| Dr. Phillip A. Bauman            | W. Dillaway Ayres             | W. Dillaway Ayres                 |
| Richard P. Shanley               | Dr. Phillip A. Bauman         | Dr. Phillip A. Bauman             |
| Bruce W. Shewmaker               | Charles E. Ramsey             | Lucio L. Lanza                    |
|                                  | Richard P. Shanley            | Charles E. Ramsey                 |
|                                  | Bruce W. Shewmaker            | Bruce W. Shewmaker                |

(1) Denotes the Chairman of the Committee.

**Executive Committee.** The Executive Committee may meet from time to time between regular meetings of the Board for strategic planning and to exercise the authority of the Board to the extent provided by law. The Executive Committee did not meet or act by unanimous written consent in 2013.

**Audit Committee.** The Audit Committee (i) oversees all material aspects of our accounting and financial reporting processes, internal control and audit functions; (ii) monitors the independence and performance of our independent registered public accountants; (iii) provides a means for open communication among our independent registered public accountants, financial and senior management, and the Board; and (iv) oversees compliance by us with legal and regulatory requirements.

The Audit Committee operates pursuant to a written charter approved by our Board. A current copy of the Audit Committee Charter of the Company is available on our website (<http://ir.hhvc.com/governance.cfm>). The Audit Committee Charter sets out the responsibilities, authority and duties of the Audit Committee. The Audit Committee met four times and did not act by unanimous written consent in 2013. The Audit Committee has selected, and a majority of the Board has ratified, PricewaterhouseCoopers LLP (“PwC”) as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014, subject to shareholder approval.

#### *Audit Committee's Pre-Approval Policies*

In 2013, the Audit Committee of the Company pre-approved all audit and non-audit services provided to us by PwC. The Audit Committee's Pre-Approval Policies and Procedures provide that the Audit Committee (or the Chairman pursuant to delegated authority) must pre-approve all auditing services and permitted non-audit services and that all such requests to provide services must be submitted to the Audit Committee or the Chairman, as the case may be, by both the independent auditor and the Chief Financial Officer.

The Audit Committee has determined that the provision of non-audit services that were provided during 2013 is compatible with maintaining PwC's independence in performing audit services for the Company.

#### *Audit Committee Report*

Our Audit Committee presents the following report:

The Audit Committee of the Company has performed the following functions: (i) the Audit Committee reviewed and discussed the audited financial statements of the Company with management, (ii) the Audit Committee discussed with the independent auditors the matters required to be discussed by PCAOB Rule 3526 “Communication with Audit Committee Concerning Independence,” (iii) the Audit Committee received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence, and has discussed with the auditors the auditors' independence, and (iv) based on the review and discussions, the Audit Committee recommended to the Board of the Company that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the SEC.

Respectfully,

Members of the Audit Committee

Richard P. Shanley (Chairman)

W. Dillaway Ayres

Lucio L. Lanza

Bruce W. Shewmaker

Compensation Committee. The Compensation Committee of the Board (the “Committee”) annually reviews and approves corporate goals and objectives relevant to total compensation — that is, changes in components of total compensation, including base salary, bonus and equity incentive plan compensation — of the Chief Executive Officer and other executive officers, evaluates their performance against these goals and objectives, and, based on its evaluation, sets their total compensation. The Committee is composed entirely of directors who are independent under the rules of the Nasdaq Global Market and “not interested” directors as defined in the 1940 Act. Each of the Committee members is also a “non-employee director” as defined in Section 16 of the 1934 Act, and is an “outside director,” as defined by Section 162(m) of the Internal Revenue Code of 1986 (the “Code”). In addition, all Committee members meet the independence criteria prescribed by the Nasdaq Global Market for compensation committee membership. The Committee also annually reviews benefits for all employees. The details of the processes and procedures involved in the establishment of executive compensation and benefits are described in the Compensation Discussion & Analysis (“CD&A”) beginning on page 24. The Committee met twice and acted by unanimous written consent once in 2013.

The Company's full Board, including a majority of the non-interested directors (as defined in Section 2(a)(19) of the 1940 Act), ultimately makes the final decisions regarding the Chief Compliance Officer's compensation and approves grants under the Company's equity incentive plan made by the Committee for all employees as required by the 1940 Act.

The Compensation Committee Charter is available on the Company's website (<http://ir.hhvc.com/governance.cfm>).

*Role of Compensation Consultant*

The Committee has the authority to engage independent advisors to assist it in carrying out its responsibilities. In 2013, the Committee again engaged Johnson Associates, Inc. (“Johnson Associates”) to advise it on relevant executive pay and related issues. Johnson Associates reports directly to the Committee and not to management. Johnson Associates is independent from the Company, has not provided any services to the Company other than to the Committee, and receives compensation from the Company only for services provided to the Committee. The Committee assessed the independence of Johnson Associates pursuant to SEC rules and concluded that the work of Johnson Associates has not raised any conflict of interest. Mr. Ayres, the Chairman of the Committee, with the assistance of Ms. Forman, in her role as Director of Human Resources, provided information to Johnson Associates regarding the role of each employee, our perceived competition and the Committee's goals with respect to compensation in general. Mr. Jamison, our Chief Executive Officer, also participated in conversations with Johnson Associates regarding overall compensation. During 2013, Johnson Associates assisted the Committee by:

Reviewing the Company's cash compensation and competitive market data with respect to private venture capital firms, asset management firms, public companies with similar market capitalizations and compliance professionals;

Reviewing the CD&A; and

Reviewing the cash compensation of our Board for 2014.

*Compensation Committee Interlocks and Insider Participation*

There were no Compensation Committee interlocks or insider participation on the Committee in 2013.

All members of the Committee are independent directors and none of the members is a present or past employee of the Company. No member of the Committee: (i) has had any relationship with us requiring disclosure under Item 404 of Regulation S-K of the 1934 Act; or (ii) is an executive officer of another entity at which one of our executive officers serves on the board of directors.

*Compensation Committee Report on Executive Compensation*

Our Compensation Committee presents the following report:

The Committee has reviewed and discussed the CD&A with management and has recommended to the Board that the CD&A be included in this Proxy Statement.

Respectfully,

Members of the Compensation Committee

W. Dillaway Ayres (Chairman)



Dr. Phillip A. Bauman

Lucio L. Lanza

Charles E. Ramsey

Nominating and Management Development Committee. The Nominating and Management Development Committee (the "Nominating Committee") acts as an advisory committee to the Board by identifying individuals qualified to serve on the Board as directors and on committees of the Board, and to recommend that the Board select the Board nominees for the next annual meeting of shareholders. Additionally, the Nominating Committee supports the development of the Company's management. The Nominating Committee met twice and did not act by unanimous written consent in 2013.

The Nominating Committee annually reviews the requisite skills and characteristics of Board members, as well as the composition of the Board as a whole. This assessment includes a consideration of independence, potential conflicts of interest, diversity, age, skills, including risk assessment skills and specific past experience or particular expertise that would be useful to the Company, and industry backgrounds and knowledge in the context of the needs of the Board and the Company. The Nominating Committee also considers the ability of current and prospective directors to devote sufficient time to performing their duties in an effective manner. Directors are expected to exemplify the highest standards of personal and professional integrity and to constructively challenge management through their active participation in meetings. In particular, the Nominating Committee seeks directors with established strong professional reputations and expertise in areas relevant to the strategy and operations of the Company's business.

While the Company's Corporate Governance Guidelines do not prescribe diversity standards, as a matter of practice, the Nominating Committee considers diversity in the context of the Board as a whole and takes into account the personal characteristics (gender, ethnicity, age) and experience (skills, industry, professional, public service) of current and prospective directors to facilitate Board deliberations that reflect a broad range of perspectives. The Board believes that director nominees should not be chosen nor excluded solely or largely because of age, race, color, gender, national origin or sexual orientation or identity. Most important, the Board believes that diversity of experience is an important factor to consider when evaluating nominees because of the breadth of our business as a publicly traded, venture capital firm, operating as a business development company in many different industries relating to nanotechnology and life sciences.

The Nominating Committee evaluates all candidates for the Board based on the above qualifications, regardless of whether the candidate was nominated by an officer, Board member or shareholder. The Nominating Committee also conducts annual reviews of current directors whose terms are nearing expiration, but who may be proposed for re-election, by reviewing the considerations described above and past contributions to the Board.

The Nominating Committee will consider director candidates recommended by shareholders. In considering candidates submitted by shareholders, the Nominating Committee will take into consideration the needs of the Board and the qualifications of the candidate. The Nominating Committee may also take into consideration the number of shares held by the recommending shareholder and the length of time that such shares have been held. To have a candidate considered by the Nominating Committee, a shareholder must submit the recommendation in writing and must include:

The name of the shareholder and evidence of the person's ownership of shares of the Company, including the number of shares owned and the length of time of ownership;

The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of the Company and the person's consent to be named as a director if selected by the Nominating Committee and nominated by the Board; and

If requested by the Nominating Committee, a completed and signed directors' questionnaire.

The shareholder recommendation and information described above must be sent to the Company's Secretary, c/o Harris & Harris Group, Inc., 1450 Broadway, 24<sup>th</sup> Floor, New York, New York 10018, and must be received by the Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of shareholders or, if the meeting has moved by more than 30 days, a reasonable amount of time before the meeting. See "What Are the Deadlines to Nominate Directors or to Propose Other Business for Consideration at the 2015 Annual Meeting of Shareholders?" above for more information about shareholder nominations.

Preliminary interviews of director candidates may be conducted by the Chairman of the Nominating Committee or, at his request, any other member of the Nominating Committee or Board, the Lead Independent Director and the Chairman of the Board. Background material pertaining to director candidates is distributed to the members of the Nominating Committee for their review. Director candidates who the Nominating Committee determines merit further consideration are interviewed by the Chairman of the Nominating Committee and such other Nominating Committee members, directors and key senior management personnel as determined by the Chairman of the Nominating Committee. The results of these interviews are considered by the Nominating Committee in its deliberations. We do not currently pay any third party a fee to assist in the process of identifying and evaluating candidates.

The Nominating Committee operates pursuant to a written charter approved by our Board. The Nominating and Management Development Committee Charter sets out the responsibilities, authority and duties of the Nominating Committee. The Nominating and Management Development Committee Charter is available on our website (<http://ir.hhvc.com/governance.cfm>).

Valuation Committee. The Valuation Committee has the full power and authority of the Board in reviewing and approving the valuation of our securities for reporting purposes pursuant to our Valuation Procedures that were established and approved by the Board. The Valuation Committee met four times and did not act by unanimous written consent in 2013.

Independent Directors Committee. The Independent Directors Committee has the responsibility of proposing corporate governance and long-term planning matters to the Board, overseeing compliance and making the required determinations pursuant to the 1940 Act. All of the independent directors are members of the committee. The Independent Directors Committee met four times and did not act by unanimous written consent in 2013.



Executive Officers

Our executive officers who are not nominees for directors are set forth below. Information relating to our executive officers who are nominees for directors is set forth under “Election of Directors – Nominees.” Our executive officers are elected to serve until they resign or are removed, or are otherwise disqualified to serve, or until their successors are elected and qualified.

**Daniel B. Wolfe.** Mr. Wolfe, age 37, has served as President and Chief Operating Officer since January 2009 and as a Managing Director since January 2008. He served as Chief Financial Officer from January 2008 to December 31, 2012, as Treasurer from May 2008 to December 31, 2012, as Principal from January 2007 to January 2008, as Senior Associate from January 2006 to January 2007, as Associate from 2004 to 2005, and as Vice President from July 2004 to January 2008. Since January 2009, he has served as President and Chief Operating Officer and from January 2009 to December 31, 2012, as Chief Financial Officer of H&H Ventures Management, Inc. (formerly Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company; and from October 2008 to May 2, 2012, he served as a Director. He is a Director of Enumeral Biomedical Corp. and SiOnyx, Inc., privately held companies in which we have investments. He is a board observer of Laser Light Engines, Inc., a privately held company in which we have an investment. Prior to joining us, he served as a consultant to Nanosys, Inc. (from 2002 to 2004), to CW Group (from 2001 to 2004) and to Bioscale, Inc. (from January 2004 to June 2004). He was graduated from Rice University (B.A.), where his honors included the Zevi and Bertha Salsburg Memorial Award in Chemistry and the Presidential Honor Roll, and from Harvard University (A.M., Ph.D., Chemistry), where he was a NSF Predoctoral Fellow.

At our request, Mr. Wolfe was interim Chief Executive Officer of Evolved Nanomaterial Sciences, Inc. (“ENS”), one of our portfolio companies, from July 1, 2007, to September 28, 2007. ENS filed for Chapter 7 bankruptcy on September 30, 2007.

**Alexei A. Andreev.** Mr. Andreev, age 41, has served as an Executive Vice President and as a Managing Director since March 2005. From 2002 to March 2005, he was an Associate with Draper Fisher Jurvetson, a venture capital firm. He is a Director of Adesto Technologies, Corporation, D-Wave Systems, Inc., EchoPixel, Inc. and Ultora, Inc. all privately held companies in which we have investments. He is a board observer of Bridgelux, Inc., Cambrios Technology Corporation, Contour Energy Systems, Inc. and Molecular Imprints, Inc., privately held companies in which we have investments. He is a member of the board of Alberta Centre for Advanced Micro Nano Technology Products (ACAMP). He was graduated with honors in Engineering/Material Sciences (B.S.), in Solid State Physics (Ph.D.) from Moscow Steel and Alloys Institute and from Stanford Graduate School of Business (M.B.A.).

**Misti Ushio.** Ms. Ushio, age 42, has served as an Executive Vice President and as a Managing Director since May 2011. She served as Principal from January 2010 to May 2011, as a Vice President from May 2007 to May 2011, and as Associate from May 2007 to December 2009. From June 2006 to May 2007, Ms. Ushio was a Technology Licensing Officer at Columbia University. From May 1996 to May 2006, she was employed by Merck & Co., Inc., most recently as a Senior Research Biochemical Engineer with the Bioprocess R&D group. She is a member of the Nanotechnology Institute Corporate Advisory Group of Philadelphia, Pennsylvania. She is a Director of AgBiome, LLC, OpGen, Inc., ProMuc, Inc., Senova Systems, Inc., and Synglyco, Inc. (formerly Ancora Pharmaceuticals, Inc.), all privately held companies in which we have investments. She is a board observer of Ensemble Therapeutics Corporation, Mersana Therapeutics, Inc., and Metabolon, Inc., all privately held companies in which we have investments. Ms. Ushio also serves on the board of the FastForward Accelerator at Johns Hopkins University and is on the Executive Oversight Committee for the Columbia University Coulter Foundation Grant. She was graduated from Johns Hopkins University (B.S.), Lehigh University (M.S., Chemical Engineering) and University College London (Ph.D., Biochemical Engineering).

**Sandra Matrick Forman, Esq.** Ms. Forman, age 47, has served as General Counsel, as Chief Compliance Officer and as Director of Human Resources since August 2004, and as our Secretary since January 1, 2009. Since January 2012, she has served as General Counsel, Chief Compliance Officer and Secretary of H&H Ventures Management, Inc. (formerly Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company. She is a Director of Synglyco, Inc. (formerly Ancora Pharmaceuticals, Inc.), a privately held company in which we have an investment. Prior to joining us, she was an Associate at Skadden, Arps, Slate, Meagher & Flom LLP in the Investment Management Group. She was graduated from New York University (B.A.), where her honors included National Journalism Honor Society, and from the University of California Los Angeles (J.D.), where her honors included Order of the Coif and membership on the Law Review.

**Patricia N. Egan.** Ms. Egan, age 39, has served as Chief Financial Officer since January 1, 2013. She served as Chief Accounting Officer, as a Vice President and as Senior Controller from June 2005 to December 31, 2012. From June 2005 to December 2005, from August 2006 to March 2008 and from May 2008 to December 31, 2008, she served as an Assistant Secretary. Since January 1, 2013, she served as Chief Financial Officer of H&H Ventures Management, Inc. (formerly Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company; since January 2006, she served as Treasurer; from January 2006 to January 2012, she served as Secretary; and from January 2012 to December 31, 2012, she served as Chief Accounting Officer, as a Vice President and as Senior Controller. From 1996 to 2005, she was employed by PwC, most recently as a Manager in its financial services group. She was graduated from Georgetown University (B.S.), where her honors included the Othmar F. Winkler Award for Excellence in Community Service. She is a Certified Public Accountant.

**Robert S. Burns.** Mr. Burns, age 43, has served a Senior Vice President since March 2012. From October 2004 to March 2012, he was a Senior Vice President of Lux Research, a firm that performs technology scouting and market assessments in emerging technology. He is a director at The North Carolina Center of Innovation in Nanobiotechnology. In 2011, he was selected as one of seven executives to receive an Eisenhower Fellowship. He was graduated from The University of Maryland-College Park (B.A., Economics) and from The George Washington University (M.B.A., International Business).



**Mary P. Brady.** Ms. Brady, age 52, has served as Senior Controller since January 1, 2013, and as a Vice President since November 2005. From November 2005 to December 31, 2012, she served as Controller, and as an Assistant Secretary from November 2005 to March 2008. Since January 1, 2013, she served as Senior Controller of H&H Ventures Management, Inc. (formerly Harris & Harris Enterprises, Inc.), a wholly owned subsidiary of the Company; since January 2012, she has served as Vice President; and from January 2012 to December 31, 2012, she served as Controller. From 2003 through 2005, she served as a senior accountant at Clarendon Insurance Company in its program accounting group. Prior to that, she was a Senior Associate at PwC in its financial services group. She was graduated Summa Cum Laude from Lehman College (B.S.). She is a Certified Public Accountant.

### Related Party Transactions

In the ordinary course of business, the Company enters into transactions with portfolio companies that may be considered related-party transactions. Other than these transactions, for the fiscal year ended December 31, 2013, there were no transactions, or proposed transactions, exceeding \$120,000 in which the Company was or is a participant in which any related person had or will have a direct or indirect material interest.

In order to ensure that the Company does not engage in any prohibited transactions with any persons affiliated with the Company, the Company has implemented written procedures, which are set forth in the Company's Compliance Manual. Our Audit Committee must review in advance any "related-party" transaction, or series of similar transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds \$120,000 and in which such related party had, or will have, a direct or indirect material interest. The Board reviews these procedures on an annual basis.

In addition, the Company's Code of Conduct for Directors and Employees ("Code of Conduct"), which is signed by all employees and directors on an annual basis, requires that all employees and directors avoid any conflict, or the appearance of a conflict, between an individual's personal interests and the interests of the Company. Pursuant to the Code of Conduct, which is available on our website (<http://ir.hhvc.com/governance.cfm>), each employee and director must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to the Chief Compliance Officer. The Independent Directors Committee is charged with monitoring and making recommendations to the Board regarding policies and practices relating to corporate governance. If there were any actions or relationships that might give rise to a conflict of interest, such actions or relationships would be reviewed and approved by the Board.



Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 1934 Act requires our officers and directors, and persons who own more than 10 percent of our common stock, to file reports (including a year-end report) of ownership and changes in ownership with the SEC and to furnish the Company with copies of all reports filed.

Based solely on a review of the forms furnished to us, or written representations from certain reporting persons, we believe that all persons who were subject to Section 16(a) in 2013 complied with the filing requirements, except for the instance discussed below.

During the fiscal year ended December 31, 2013, a Form 4 for an annual automatic grant of restricted stock pursuant to an exemptive order for Messrs. Ayres, Bauman, Lanza, Ramsey, Shanley and Shewmaker, was filed late on each of their behalf by the Company's compliance personnel owing to an error.

## Executive Compensation

### Compensation Discussion & Analysis

#### Overview

This Compensation Discussion & Analysis (“CD&A”) describes the material elements of compensation awarded to, earned by, or paid to our principal executive officer, principal financial officer and the three most highly paid executive officers (other than the principal executive officer and the principal financial officer) serving as such at the end of 2013 (the “named executive officers”):

- Douglas W. Jamison, Chairman, Chief Executive Officer and a Managing Director;
- Patricia N. Egan, Chief Financial Officer;
- Daniel B. Wolfe, President, Chief Operating Officer, and a Managing Director;
- Alexei A. Andreev, Executive Vice President and a Managing Director; and
- Misti Ushio, Executive Vice President and a Managing Director.

This CD&A focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year. We also describe compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of our executive compensation for the last completed fiscal year. Pursuant to the written charter of our Committee (for purpose of this CD&A, the “Committee”), the Committee oversees the design and administration of our executive compensation program. The Committee ensures that the total compensation paid to our executive officers is fair, reasonable and competitive.

#### Executive Summary

The Committee seeks to retain employees and also to ensure that they are compensated competitively when we recognize gains either through the sale of our portfolio companies or through their completion of initial public offerings (“IPOs”). The Committee believes that retention is especially important for a company of our size (11 full time and two part-time employees as of December 31, 2013), the specialized nature of our business and the long-term nature of our venture capital investments.

In 2013, the main elements of our compensation program were base salary, a bonus opportunity, vesting of equity awards in the form of restricted stock granted in 2012 and other benefits and perquisites. Other than a cost of living adjustment, none of the named executive officers except for Ms. Egan received an increase in base salary for 2013. Ms. Egan received an increase in base salary from \$194,000 to \$225,000 because of her promotion from Chief Accounting Officer, Senior Controller and Vice President to Chief Financial Officer as of January 1, 2013.

For 2013, the Committee awarded bonuses based on: 1) the data provided by Johnson Associates for what we describe below as the "Referenced Group"; 2) performance goals (as discussed in more detail below); and 3) the importance of retaining employees, particularly deal team members who have investment track records at this time when the Company is pursuing specific plans to grow our assets under management. For 2013, the total bonuses paid to the named executive officers aggregated \$640,000 as compared with \$165,000, and \$540,000 for 2012 and 2011, respectively. The Committee also used its discretion to award an additional bonus to be paid to the named executive officers during the second half of 2014 in the amounts of \$50,000, \$50,000, \$50,000, \$50,000, and \$10,000 to each of Mr. Jamison, Mr. Wolfe, Mr. Andreev, Ms. Ushio and Ms. Egan, respectively.

The named executive officers did not receive any grants of restricted stock pursuant to the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan") in 2013. In 2012, the named executive officers received grants of restricted stock pursuant to the Stock Plan that were intended to cover at least a three year period. In 2013, a total of 86,460 shares (prior to shares withheld for payment of taxes) of restricted stock vested for the named executive officers. From the initial 2012 grant, the named executive officers have a total of 1,092,540 shares of restricted stock outstanding as of the date of this Proxy Statement. A total of 786,000 shares vest when our volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period ("market-based awards"). These pre-determined stock price targets range from \$5.00 per share to \$9.00 per share. The remaining 306,540 shares have vesting dates ranging from June 30, 2014, through June 30, 2017, based on the named executive officer's continued service with the Company. The Committee does not currently anticipate making any future stock option grants.

Our named executive officers do not have employment agreements or any special benefits or perquisites that are not available to all employees, nor do they participate in any deferred compensation plans.

While the Committee considers the financial performance of the Company and its portfolio companies when it makes compensation decisions, it is cognizant that based on the nature of making venture capital investments in early-stage companies, most of which are currently privately held, financial performance, including the Company's stock price, must be considered in the context of the long-term nature of our business.

## 2013 Shareholder Vote on Executive Compensation

In May 2013, the Company held a shareholder advisory vote to approve the compensation paid to our named executive officers for 2012, which resulted in 92 percent of the votes cast, not including abstentions, approving such compensation. The Committee considered the results of the advisory vote in reviewing our executive compensation program, noting the high level of shareholder support, and elected to continue the same principles in determining the types and amounts of compensation to be paid to our named executive officers for 2013. The Committee will continue to focus on responsible executive compensation practices that attract, motivate and retain high performance executives, reward those executives for the achievement of short-term and long-term performance, and support our other executive compensation objectives, including long-term career development and retention goals.

## Compensation Program Objectives and Philosophy

**In General.** The objectives of the Company's compensation program are to:

- attract, motivate and retain employees by providing market-competitive compensation while preserving Company resources;
- maintain our leadership position as a venture capital firm; and
- align management's interests with shareholders' interests.

To achieve the above objectives, the Committee designed a total compensation program in 2013 for our named executive officers composed of a base salary, a bonus opportunity, existing equity in the form of restricted stock and other benefits and perquisites. The Committee believes that the equity component of compensation is a crucial component of our compensation package. No additional shares of restricted stock were granted in 2013 because the 2012 restricted stock grant was intended to cover a three-year period. Shares of restricted stock are utilized for long-term incentive and to make the Company's compensation program more competitive, particularly when compared with compensation programs of private partnerships that, unlike the Company, are able to award carried interest currently taxable as long-term gains and to permit co-investments in deals. Our executive compensation programs and related data are reviewed throughout the year and on an annual basis by the Committee to determine whether the compensation program is providing its intended results.

The Committee believes that retention is especially important for a company of our size and the specialized nature of our business. Our employees have been selected and trained to support our focus on investment in companies enabled by nanotechnology and/or BIOLOGY+, which we refer to as investments in interdisciplinary life science companies where biology innovation is intersecting with innovations in areas such as electronics, physics, materials science, chemistry, information technology, engineering and mathematics, and to provide the administration necessary to comply with the specialized regulatory environment required of a business development company. Our

nanotechnology and BIOLOGY+ focus requires highly specialized scientific knowledge. There are relatively few individuals who have both such scientific knowledge and venture capital experience. Additionally, our business development company structure requires specialized management, administrative, legal and financial knowledge of our specific regulatory regime. Because there are very few business development companies, and because we are among the few focusing solely on venture capital equity investments, it could be difficult to find replacements for certain executive, legal and financial positions.

**Competitive Market.** For our investment team members, the competition for retention and recruitment is primarily private venture capital firms, hedge funds, asset management firms, venture-backed companies and, to a lesser extent, investment banking firms. Venture capital funds commonly pay at least 20 percent of the realized profits (including capital gains), or carried interest, of each newly raised fund to the management firm, which awards interests to its partners and employees. For our legal and accounting professionals, in addition to the foregoing, the competition is other public companies without regard to industry, asset management companies, including private equity funds, and legal and accounting firms. The Company does not have a readily identifiable peer group because most business development companies are not early-stage venture capital companies, and most other early-stage venture capital companies are not publicly traded. Thus, we do not rely exclusively on the use of peer comparison groups in the design of our compensation program. As one factor in determining compensation, we utilize compensation comparables, on an individual basis, to the extent that they seem appropriately analogous, as provided to the Committee by its independent compensation consultant.

**Compensation Process.** On an annual basis, the Committee reviews and approves each element of compensation for each of our executive officers, taking into consideration the recommendation of our CEO (for compensation other than his own) in the context of the Committee's compensation philosophy, to ensure that the total compensation program and the weight of each of its elements meets the overall objectives discussed above. The Committee also reviews tallies that include each element of compensation for the CEO and the Chief Compliance Officer. For the Chief Compliance Officer, the Committee recommends her compensation to the full Board, for approval by at least a majority of the non-interested directors (as defined in Section 2(a)(19) of the 1940 Act). None of our employees have employment agreements and they are all "at will" employees.

In 2013, an independent compensation consultant, Johnson Associates, supplied the Committee with market data on all full-time positions. The information provided for 2013 was for private equity firms, venture capital firms and investment management firms, and was adjusted to reflect compensation for a venture capital firm with \$100 to \$200 million in assets under management. Data was also provided for venture capital firms with larger market capitalizations and public companies with comparable market capitalizations. Further data was provided for 1940 Act compliance personnel (collectively, the "Referenced Group"). The independent consultant did not identify the names of companies included in the Referenced Group.

The Committee considers recommendations from the CEO regarding compensation, along with factors such as individual performance reviews and current and potential impact on Company performance, reputation, skills and experience. When determining compensation, the Committee considers the importance of retaining certain key officers whose replacement would be challenging owing to the Company's status as a 1940 Act company and owing to its nanotechnology and BIOLOGY+ specialties. In determining overall compensation, the Committee also considers the highly specialized nature of certain positions and the multiple roles that individuals play in a company with relatively few employees in determining overall compensation.

When addressing executive compensation matters, the Committee generally meets outside the presence of all executive officers except our CEO and our General Counsel, each of whom leaves the meeting when his/her compensation is reviewed.

**Regulatory Considerations.** The 1940 Act permits internally managed business development companies to either pay out up to 20 percent of net income after taxes calculated on an annual basis through the implementation of a profit-sharing plan or issue up to 20 percent of shares issued and outstanding through implementation of an equity incentive plan. As noted above, we have issued restricted stock awards under the Stock Plan.

Section 162(m) of the Code generally disallows a tax deduction to publicly held companies for compensation paid to their CEO or any of their three other most highly compensated executive officers (other than the CFO), to the extent that compensation exceeds \$1 million per covered officer in any fiscal year. However, to the extent compensation qualifies as performance-based, the limitation does not apply. We have also designed the Stock Plan with the intention that awards made thereunder generally will qualify as performance-based compensation under Section 162(m) of the Code, but we reserve the right to pay amounts thereunder that do not qualify as such performance-based compensation if we determine such payments to be appropriate in light of our compensation objectives from time to time.

Our status for federal income tax purposes as a regulated investment company under Subchapter M of the Code makes the deductibility of our compensation arrangements a much less important factor for the Committee to consider than it would be if we were an operating company. The Company presently has more operating expenses than it can deduct for tax purposes, even before equity compensation. As a regulated investment company, the Company cannot, however, deduct operating expenses from its long-term capital gains, which are its most significant form of income. In addition, under Subchapter M of the Code, the Company cannot carry forward or backward any unused operating expenses from one year to future or prior tax years.

## Compensation Components



The principal elements of our executive compensation program for 2013 were base salary, bonus, existing equity awards in the form of restricted stock and other benefits and perquisites. The Committee believes that each element is essential to achieve the Company's objectives as set forth above. The Committee is mindful of keeping cash compensation expenses at as low a level of total operating expenses as is consistent with maintaining the Company's competitiveness to attract and retain high-quality employees.

**Base Salaries.** We recognize the need to pay our named executive officers, and other employees, a competitive annual base salary. We review base salaries for our named executive officers annually. In 2013, the Committee compared salary ranges for all executive officers against the Referenced Group. Base salaries have historically been adjusted annually for inflation and also based on changes in the marketplace and an executive's individual performance, salary position among peers, career growth potential and/or a change in responsibilities.

Our Managing Directors without other corporate roles are paid the same base salaries in order to promote teamwork. Our CEO receives an additional \$21,000 per year and our President/Chief Operating Officer receives an additional \$11,000 per year, both of whom are also Managing Directors, in light of their special responsibilities. Our CEO's compensation has remained below market based on the comparables provided by the Committee's independent compensation consultant.

In 2013, Ms. Egan received an increase in base salary from \$194,000 to \$225,000 because of her promotion from Chief Accounting Officer, Senior Controller and Vice President to Chief Financial Officer as of January 1, 2013.

None of the other named executive officers received an increase in base salary for 2013, other than a cost of living adjustment. None of the named executive officers has received an increase in base salary or a cost of living adjustment in 2014, and none is presently contemplated.

**Bonuses.** According to the Committee's independent compensation consultant, historically, our overall compensation has not in each instance been competitive for our named executive officers when we have not paid bonuses. If the named executive officers do not receive sufficient cash from base salary in a given year to provide market-competitive total compensation, as determined by the Committee and based on advice from the independent compensation consultant, the Committee may pay the named executive officers cash bonuses, subject to performance goals. In general, we have historically refrained from increasing base salaries, other than cost of living adjustments, from year to year, even when market data has supported an increase, and have used the ability to provide bonuses at the end of the year to provide market-competitive total compensation. We believe this strategy has provided management with the greatest flexibility in managing expenses since a material portion of total compensation is paid out after performance for the year can be evaluated.

In considering the amounts of the bonus levels of our named executive officers for 2013, the Committee took into account:

The data provided by Johnson Associates for the Referenced Group;

Performance goals (as set forth below); and

The importance of retaining employees, particularly deal team members who have investment track records at a time that the Company is pursuing specific plans to grow our assets under management.

For 2013, the total bonuses paid to the named executive officers aggregated \$640,000 as compared with \$165,000 and \$540,000 for 2012 and 2011, respectively. Messrs. Jamison, Wolfe and Andreev and Ms. Ushio each received a bonus of \$150,000, and Ms. Egan received a bonus of \$40,000. In October 2013, the Committee also used its discretion to award an additional bonus to be paid to the named executive officers during the second half of 2014 in the amounts of \$50,000, \$50,000, \$50,000, \$50,000 and \$10,000 to each of Mr. Jamison, Mr. Wolfe, Mr. Andreev, Ms. Ushio and Ms. Egan, respectively, generally contingent upon their continued service to the Company in 2014 through the date of service.

In the future, based on market conditions, our cash position and the size of our assets, the Committee may exercise its discretion to (1) award additional bonuses based on individual employee performance or for retention purposes, or (2) not award bonuses regardless whether other compensation is market competitive.

To align the 2013 bonus program with our 2013 business strategy, the Committee established the following performance objectives and weightings:

45 percent overall corporate performance;  
40 percent portfolio company performance; and  
15 percent personal objectives.

The Committee established the specific objectives by taking into consideration the anticipated corporate objectives during 2013, the stage of development of each of our portfolio companies and the role that each individual plays in achieving the corporate and portfolio company objectives. By way of process, the Committee directed management to propose a set of performance objectives, and management proposed the overall corporate performance objectives, the portfolio company objectives and the personal objectives. The Committee and management then engaged in a back and forth dialogue through the Chief Executive Officer and the Chairperson of the Committee before the Committee adopted the final objectives to be utilized.

Within the specific parameters of approved objectives, the Committee reserved for itself a significant level of discretion in reaching final determinations of achievement levels reached. The determination to reserve such discretion and flexibility arose from the Committee's realization, based on prior years' experiences, that given the Company's business activities and the long-term nature of our investments, as circumstances change throughout a given fiscal year, on a macro and/or a micro level, specific/rigid formulas or guidelines for measuring achievement set in the beginning of a year, if strictly applied, may well provide incentives for activity that does not result in, or award bonuses that do not match, actual shareholder value creation in the short term or in the long term. The award criteria finally adopted were designed to provide management with a meaningful guideline for meeting the Committee's criteria for a bonus award but not guarantee achievement, nor make achievement somewhat inevitable or impossible.



### **Overall Corporate Performance**

Forty-five percent (45 percent) of the 2013 bonus was to be awarded based on the overall corporate performance of the Company, and on the Committee's subjective evaluation. The following are illustrative examples of the types of things the Committee members considered in their final determination:

- Execution of overall business strategy including:
  - o achievement of capital return where possible without forcing premature exits of portfolio companies;
  - o deployment of new capital into growth and select early-stage portfolio companies; and
  - o the pacing of capital deployment relative to cash availability and market conditions;
- Growth of net asset value per share over a multi-year period;
- Management of the Company for stock appreciation and enhancement of market capitalization;
- Exploration of alternate sources of capital, including achievement of third party capital to manage;
  - Continued development of robust deal pipelines;
  - Continued improvement of transparency to shareholders;
  - Fostering portfolio company growth;
  - Maintenance of appropriate risk identification and mitigation strategies;
  - Management and alignment of corporate budget with business strategy and capital availability;
  - Consistent optimization of organization staffing and development;
  - Maintenance of appropriate levels of liquidity; and
  - Seeking opportunities to offset our annual expenses.

### **Portfolio Company Performance**

Forty percent (40 percent) of the 2013 bonus was to be awarded based on portfolio company performance, in accordance with the Committee's subjective evaluation of performance against objectives identified by Company management and/or the various portfolio companies themselves to which the current management team had deployed capital and in which we held an active interest in 2013. The Committee retained the discretion to place greater or lesser emphasis on a particular portfolio company (or a particular objective) based on those companies in which we exercise a greater or lesser level of influence and control based on factors, including our ownership interest and board representation, identified by the Committee in its discretion. The portfolio company objectives generally fall into the following categories:

- Expand management and technical team;
- Secure grants from foundations, government agencies or other sources;
- Build development-stage business opportunities;
- Meet milestones for round of financing;
- Complete initial testing of products;

- Sign development/licensing/distribution agreements;
- Sign manufacturing relationships;
- Launch first products;
- Meet revenue, cash flow and bookings targets;
- Grow business units; and
- Realize value from the sale or IPO of the company.

### **Named Executive Officer 2013 Personal Objectives**

Fifteen percent (15 percent) of the 2013 bonus was to be awarded on personal objective performance. The following table describes the individual objectives established for each of our named executive officers for 2013. Performance against the individual objectives was evaluated by the Committee in light of each participant's individual roles and responsibilities. The Committee reserved for itself a significant level of discretion in reaching final determinations of achievement levels reached.

#### **Douglas W. Jamison** (Objectives consistent with position as Chief Executive Officer, Chairman and Managing Director)

- Plan for Harris & Harris Group's strategic growth, including capital needs;
  - o Manage the firm for stock appreciation and enhancement of market capitalization;
    - o Grow net asset value over a multi-year period;
  - o Increase assets under management including achievement of third party capital to manage; and
    - o Achievement of alternate sources of capital;
- Manage the venture capital portfolio to maximize its value over the lifetime of the investments in the portfolio including:
- o providing support for the achievement of milestone targets, and positioning portfolio companies for profitable liquidity events; and
    - o deciding the appropriate time and strategy for monetization of publicly traded portfolio companies;
  - Maintain a pipeline of investment opportunities for future growth of the Company;
  - End the year with an enhanced combination of primary and secondary liquidity:
    - o Maintain operating budget below 2012 level.

#### **Daniel B. Wolfe** (objectives consistent with position as President, Chief Operating Officer and Managing Director)

- Manage the venture capital portfolio to maximize its value over the lifetime of the investments in the portfolio including:
- o providing support for the achievement of milestone targets, and positioning portfolio companies for profitable liquidity events; and
    - o supporting and executing public company monetization strategies;
  - Manage existing venture debt investments for the Company;
  - End the year with an enhanced combination of primary and secondary liquidity;
  - Manage operating expenses and oversee corporate cash management;





- Maintain a pipeline of investment opportunities for future growth of the Company;
  - Achievement of third party capital to manage;
- Support and participate in strategic growth initiatives, including efforts to increase assets under management;
  - Support all portfolio company financings;
  - Facilitate transparency and accuracy of company disclosure; and
  - Coordinate quarterly valuation process.

**Alexei Andreev** (objectives consistent with position as Executive Vice President and Managing Director)

- Manage the venture capital portfolio to maximize its value over the lifetime of the investments in the portfolio including:
- Providing support for the achievement of milestone targets, and positioning portfolio companies for profitable liquidity events;
    - Maintain a pipeline of investment opportunities for future growth of the Company;
      - Achievement of third party capital to manage;
  - Support and participate in strategic growth initiatives, including efforts to increase assets under management; and
  - Assemble and accurately prepare all necessary documents and write-ups for quarterly valuation process for portfolio companies that he works with directly.

**Misti Ushio** (objectives consistent with position as Executive Vice President and Managing Director)

- Manage the venture capital portfolio to maximize its value over the lifetime of the investments in the portfolio including:
- Providing support for the achievement of milestone targets and positioning portfolio companies for profitable liquidity events;
    - Maintain a pipeline of investment opportunities for future growth of the Company;
      - Coordinate positioning and messaging social media initiatives with the CEO;
      - Achievement of third party capital to manage;
  - Support and participate in strategic growth initiatives, including efforts to increase assets under management;
  - Assemble and accurately prepare all necessary documents and write-ups for quarterly valuation process for portfolio companies that she works with directly; and
  - Complete an accurate review of appropriate sections of our financial reports.

**Patricia N. Egan** (objectives consistent with position as Chief Financial Officer)

- Facilitate transparency and ensure accuracy of company disclosure;
  - Support quarterly valuation process;
- Support strategic growth initiatives including efforts to increase assets under management; and
- Manage the process and accuracy of all financial disclosures, including the filing of Form 10-Ks and Form 10-Qs.

Achievement of Performance Objectives in 2013

The following table sets forth the performance objectives for our 2013 cash incentive program, the payout level for the program and the principal factors affecting the determination of the completion of the objectives as of October 30, 2013, the Committee meeting date, and projections through December 31, 2013.

| <b>Performance Objectives</b>   | <b>Payout Level (as a Percentage of total target)</b> | <b>Factors Affecting Determination</b>   |
|---|---|--|
| <b>Overall Corporate Performance (45% of aggregate target amount)</b> | <b>35%</b>  | In approving a payout of 35 percent of the target award total in this category, the most significant factor considered by the Committee was the fact that the Company received approximately \$30.3 million in portfolio company realized cash in 2013, with Xradia contributing \$12.8 million and Solazyme contributing \$15.6 million. The Committee noted that net asset per share (“NAV”) was \$4.13 at December 31, 2012, and was at \$4.24 at September 30, 2013. It noted that primary and secondary liquidity was up from \$38.2 million at December 31, 2012 to \$44.9 million at the time of the meeting. It further noted that the Company made two new investments in 2013. In the aggregate, the Committee concluded that the Company had made progress on most of the Company’s 2013 objectives in some fashion. The Committee noted that the Company’s stock price had not increased and the Company had not finalized a partnership for managing third party capital. |
| <b>Portfolio Company Performance (40% of aggregate target amount)</b> | <b>35%</b>  | In approving a payout of 35 percent of the target award total in this category, the Committee noted that the Company’s private portfolio companies performed well in 2013. Many of our private portfolio companies had significant, positive financial events and partnerships and multiple companies are engaging or have engaged parties to seek liquidity events over the coming year(s). Most importantly, the Committee noted the significant investment return from the sale of Xradia, Inc. and significant cash proceeds to the Company from the sale of shares of Solazyme, Inc., which completed its IPO in 2011.  |
| <b>Personal Objectives (15% of aggregate target amount)</b>           | <b>5 to 10%</b>                                       | In approving a payout of 5 percent for Mr. Jamison and 10 percent of the target award total in this category for the other named executive officers, the Committee noted that most of the personal performance goals were met, with special emphasis on the Managing Directors’ role in managing the venture capital portfolio. The Committee noted that for the CEO, the stock price decreased in 2013, and for all the Managing Directors, we were not able to consummate a partnership that provides third party capital to manage in 2013. The Committee noted the need to continue our focus on growing NAV, getting to liquidity events in the portfolio and continuing our focus on raising assets under management through managing third  |

party money.

**Equity Incentive Awards.** Our equity incentive awards are meant to substitute for carried interest that our investment professionals likely would receive were they employed by private-sector venture capital firms, which typically pay at least 20 percent of profits before any taxes to such employees as incentive compensation. Further, that carried interest is usually in the form of capital gains, not ordinary income. Therefore, the Committee annually reviews the implementation of our equity incentive plan to ensure that there is enough vesting of equity incentive grants over time so that our named executive officers are compensated competitively in the event that the Company's portfolio companies have exit opportunities through IPOs or acquisitions, balanced with the intention of aligning our named executive officers' interests with the interests of shareholders.

The named executive officers did not receive any grants of restricted stock pursuant to the Stock Plan in 2013. However, in 2012, the named executive officers received grants of restricted stock pursuant to the Stock Plan that were intended to cover a three-year period. In 2013, a total of 86,460 shares (prior to shares withheld for payment of taxes) of restricted stock vested for the named executive officers. From the initial 2012 grant, the named executive officers have a total of 1,092,540 shares of restricted stock outstanding as of the date of this Proxy Statement. A total of 786,000 awards vest when our volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period ("market-based awards"). These pre-determined stock price targets range from \$5.00 per share to \$9.00 per share. The remaining 306,540 shares have vesting dates ranging from June 30, 2014, through June 30, 2017, based on the named executive officer's continued service with the Company. The Committee does not currently anticipate making any future stock option grants.

The Committee grants awards under the Stock Plan in order to compete with the Referenced Group to retain the specially qualified and trained personnel that have been carefully recruited and developed for the Company's specialized business. Because our primary competitors are organized as private partnerships, they can afford for cash compensation to be a large percentage of their total expenses. Unlike us, they are not prohibited from paying out at least 20 percent of their profits to key employees, primarily in the form of long-term capital gains. They also, unlike us, are permitted to grant their employees co-investment rights.

Issuance of shares of restricted stock, whose vesting is subject to performance goals, will not create the selling of shares in the market that took place historically with exercises and sales of stock options through cashless exercises, and will accordingly be more efficient in building management ownership in the Company than the use of stock options. The Committee has discussed the need to retain employees at the current time while the Company is implementing plans to grow the Company's assets. As the Committee plans for potential future equity incentive award grants and in the ordinary course reviews its share retention guidelines annually, it will also consider the balance between employee retention and its goal to align shareholder and employee interests.

Generally, the Committee is made aware of the tax and accounting treatment of various compensation alternatives. Generally Accepted Accounting Principles ("GAAP") require us to record the fair value of equity awards on the date of grant as a component of equity. We account for the Stock Plan in accordance with GAAP, which requires that we determine the fair value of all share-based payments to employees, including the fair value of grants of employee restricted shares, and record these amounts as an expense in the Consolidated Statements of Operations over the

vesting period with a corresponding increase to our additional paid-in capital. The increase to our operating expenses is offset by the increase to our additional paid-in capital, resulting in no net impact to our net asset value. Thus, the granting of restricted stock is expected to have no net impact on our net asset value. As a result, although we consider the accounting treatment of granting shares of restricted stock, we do not regard the accounting treatment to be a dominant factor in the form and/or design of awards. Upon vesting, the restricted shares are added to our shares outstanding which decreases our net asset value per share.

**Benefits and Perquisites.** We provide the opportunity for our named executive officers and other full-time employees to receive certain perquisites and general health and welfare benefits, which consist of life and health insurance benefits, reimbursement for certain medical expenses and gym membership fees. We offer participation in the Harris & Harris Group, Inc. Employee Stock Purchase Plan, which allows employees to buy shares of the Company in the open market up to four times per year, at the closing price on the Nasdaq Global Market using post-tax payroll deductions. We also offer participation in our defined contribution 401(k) plan. For the year ended December 31, 2013, the Committee approved a 401(k) plan match of 100 percent of employee contributions up to the annual maximum of \$17,500 (or \$23,000 for employees age 50 or over). In 2013, our executive officers, including our Chief Executive Officer, Mr. Jamison, received the same benefits and perquisites as our full-time administrative employees. None of our named executive officers are currently entitled to any non-qualified deferred compensation benefits.

### **Internal Pay Equity**

In 2013, the Committee discussed the internal pay equity of the named executive officers. The Committee noted that our investment professionals work together as a team rather than as a collection of individuals, which had been the historical basis for the Committee's decision to pay all Managing Directors identically, regardless of any other corporate duties. However, based on comparables as provided by Johnson Associates, the Committee's independent compensation consultant, the Committee has differentiated the CEO and President compensation to be more in line with the data from the independent compensation consultant as compared with the Referenced Group. In 2010 and 2011, this differentiation commenced with Mr. Jamison, our CEO, and Mr. Wolfe, our President/COO, receiving slightly larger bonuses than the other Managing Directors and continued in 2012, with Mr. Jamison and Mr. Wolfe receiving slightly higher base salaries than the other Managing Directors and named executive officers. In 2012, Mr. Jamison received a slightly higher bonus than the other Managing Directors. Even with this salary increase, Mr. Jamison's salary remains below market comparables. In 2013, Mr. Jamison and Mr. Wolfe continued to receive slightly higher base salaries but, based on the performance goals, all the Managing Directors were awarded the same bonus amounts. In the future, the Committee may seek to bring our CEO's total compensation further in line with the data provided by the independent compensation consultant.

The Committee further noted that the Managing Directors should receive a higher bonus than other employees based on their income-generating role and to keep their total compensation competitive with the Referenced Group.

## Share Ownership Guidelines

### Officers:

Each named executive officer is subject to a share retention requirement until such time as he or she meets a minimum share ownership percentage level. For the Managing Directors, the minimum share ownership percentage level is 1.5 percent of the total shares issued and outstanding. For the Chief Financial Officer, the percentage is a smaller percentage of the issued and outstanding shares based on the number of equity incentive awards granted as compared with the number granted to the Managing Directors for the last tranche of awards granted in 2012.

Each named executive officer generally must retain all shares of restricted stock after forfeiture restrictions have lapsed. Once the officer has met the retention requirement, however, he or she may establish a 10b5-1 trading plan to sell any number of shares over the minimum retention amount retained through the issuance of restricted stock or otherwise.

In 2013, the named executive officers collectively increased their ownership by 81,198 shares by buying through the share purchase plan or in the open market and through the vesting of restricted shares. As of March 13, 2014, none of the named executive officers has met the minimum share ownership requirements, and accordingly, the named executive officers remain subject to the retention requirement.

The Committee may grant waivers to the foregoing Share Ownership Guidelines with respect to the named executive officers of the Company if it deems it necessary in order to retain employees. No waivers have been required to date. Additionally, the Committee will in the ordinary course review these Share Ownership Guidelines on an annual basis and will consider the balance between employee retention and its goal to align shareholder and employee interests.

### Directors:

The Board believes that the Company's non-employee Directors should also own and hold shares of common stock of the Company to further align their interests and actions with interests of the Company's shareholders. Non-employee Directors of the Company are encouraged to buy shares of the Company's common stock with an appropriate percentage (as determined by each Director) of the fees received for their service on the Board or Board committees, and to hold those shares as long as they serve on the Board. In order to facilitate these acquisitions, the Company assists in establishing a brokerage account in each Director's name at a brokerage firm approved by the applicable Director. The Company obtains from each Director on an annual basis a participation election that will identify the

percentage, if any, of the Director's fees for services (including the retainer) that he or she directs to be used to purchase shares of the Company's stock in the open market. The Company deposits such amounts in the applicable Director's broker account at the time that fees are paid. The Company, the broker and the Directors work together to take all actions necessary such that the purchases of Company shares are made in accordance with the requirements of Rule 10b5-1 under the 1934 Act. The non-employee Directors are expected to retain 100 percent of the shares after forfeiture restrictions have lapsed for so long as he or she remains a Director, subject to shares withheld to pay taxes upon vesting. In 2013, the non-employee Directors collectively increased their ownership by 56,485 shares by buying in the open market or through the vesting of restricted shares.



### **Clawback Policy (Recoupment)**

If the Board determines that an executive officer has engaged in fraud, willful misconduct or a violation of Company policy that caused or otherwise contributed to the need for a material restatement of the Company's financial results, the Committee will review all performance-based compensation awarded to or earned by that executive officer on the basis of performance during fiscal periods materially affected by the restatement. This would include annual cash incentive/bonus awards and all forms of equity-based compensation. If, in the Committee's view, the performance-based compensation would have been materially lower if it had been based on the restated results, the Committee will, to the extent permitted by applicable law, seek recoupment from that executive officer of any portion of such performance-based compensation as it deems appropriate after a review of all relevant facts and circumstances.

In determining whether to recover a payment, the Committee shall take into account such considerations as it deems appropriate, including whether the assertion of a claim may violate applicable law or prejudice the interests of the Company in any related proceeding or investigation. The Committee shall have sole discretion in determining whether an executive officer's conduct has or has not met any particular standard of conduct under law or Company policy.

### Remuneration of Named Executive Officers

#### **2013 Summary Compensation Table**

The following table sets forth a summary for the years ended December 31, 2013, December 31, 2012, and December 31, 2011, of the cash and non-cash compensation paid to our named executive officers. The primary elements of each named executive officer's total compensation reported in the table are base salary, bonus and equity incentives consisting of restricted stock in 2012. The Summary Compensation Table should be read in conjunction with the CD&A and the other tables and narrative descriptions that follow.

| Name and Principal Position  | Year | Salary (\$) | Bonus (\$) | Stock Awards <sup>(2)</sup> (\$) | All Other Compensation (\$) | Total (\$) <sup>(5)</sup> |
|--|------|-------------|------------|----------------------------------|-----------------------------|---------------------------|
| Douglas W. Jamison<br>Chairman, Chief Executive Officer<br>and a Managing Director | 2013 | 332,000     | 150,000    | 0                                | 17,645                      | (3) 499,645               |
|  | 2012 | 325,000     | 45,000     | 861,720                          | 17,135                      | 1,248,855                 |
|  | 2011 | 292,000     | 135,000    | 0                                | 16,631                      | 443,631                   |
| Patricia N Egan<br>Chief Financial Officer   | 2013 | 225,000     | 40,000     | 0                                | 17,598                      | (3) 282,598               |
|  | 2012 | 194,000     | 15,000     | 315,964                          | 17,097                      | 542,061                   |
|  | 2011 | 186,000     | 25,000     | 0                                | 16,596                      | 227,596                   |
| Daniel B. Wolfe<br>President, Chief Operating Officer, and a Managing<br>Director  | 2013 | 322,000     | 150,000    | 0                                | 17,615                      | (3) 489,615               |
|  | 2012 | 315,000     | 35,000     | 861,720                          | 17,113                      | 1,228,833                 |
|  | 2011 | 292,000     | 130,000    | 0                                | 16,612                      | 438,612                   |
| Alexei A. Andreev<br>Managing Director, Executive Vice President                   | 2013 | 311,000     | 150,000    | 0                                | 17,500                      | (4) 478,500               |
|  | 2012 | 304,000     | 35,000     | 861,720                          | 17,000                      | 1,217,720                 |
|  | 2011 | 292,000     | 125,000    | 0                                | 16,500                      | 433,500                   |
| Misti Ushio<br>Managing Director, Executive Vice President <sup>(1)</sup>          | 2013 | 311,000     | 150,000    | 0                                | 17,643                      | (3) 478,643               |
|  | 2012 | 304,000     | 35,000     | 861,720                          | 17,142                      | 1,217,862                 |
|  | 2011 | 265,000     | 125,000    | 0                                | 16,641                      | 406,641                   |

(1) Ms. Ushio was a Managing Director since May 2011.

The figures in this column do not represent amounts actually paid to the named executive officers, but represent the GAAP-based grant date fair value for all shares of restricted stock granted in 2012. We did not grant awards of restricted stock in 2013 or 2011. We use the Lattice models to calculate compensation cost for performance-based (2) restricted stock awards under GAAP. The fair value of service-based restricted stock awards is calculated using the closing share price on the date of grant under GAAP. You may find more information about the assumptions we use in the Lattice models in our 2013 Annual Report on Form 10-K in Note 7. Stock-Based Compensation. These shares of restricted stock are subject to forfeiture restrictions.

Amounts reported for 2013 represent our contributions to the Harris & Harris Group, Inc. 401(k) Plan (\$17,500 for 2013) and group term life insurance premiums paid on behalf of the named executive officer. The named executive (3) officers did not earn any other compensation reportable in this column for 2013 that met the threshold reporting requirements.

Amounts reported for 2013 represent our contributions on behalf of Mr. Andreev to the Harris & Harris Group, (4) Inc. 401(k) Plan. Mr. Andreev did not earn any other compensation reportable in this column for 2013 that met the threshold reporting requirements.

- (5) Includes shares of restricted stock subject to forfeiture restrictions.

**2013 Cash Compensation Table**

As required by federal proxy rules, the amounts listed in the Stock Awards and the Option Awards column of the Summary Compensation Table above are not actual amounts paid to the named executive officers, but represent the GAAP-based grant date fair value of shares of restricted stock granted in 2012. To reflect the amount of actual income for each named executive officer received in a particular year, in the supplemental table below we have removed the Stock Awards and Option Awards columns and added columns for Value Realized on Shares Vested and Value Realized on Options Exercised, which represents the taxable income for shares of restricted stock vested or options exercised. Amounts in the Values Realized on Shares Vested column are held in shares of the Company pursuant to the Company's share retention requirements. Amounts in the Value Realized on Options Exercised column include total cash value earned before the named executive officer satisfied the Company's share retention requirements. The 2013 Cash Compensation Table, which is not required by the federal proxy rules, should be read in conjunction with the Summary Compensation Table, the CD&A and the other tables and narrative descriptions that follow.

| Name and Principal<br>Position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Value<br>Realized              | Value                                      | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|--|------|----------------|---------------|--------------------------------|--|-----------------------------------|---------------|
|  |      |                |               | on<br>Shares<br>Vested<br>(\$) | Realized on<br>Option<br>Exercises<br>(\$) |                                   |               |
| Douglas W. Jamison<br>Chairman, Chief Executive Officer<br>and a Managing Director | 2013 | 332,000        | 150,000       | 59,598                         | 0  | 17,645                            | 559,243       |
|  | 2012 | 325,000        | 45,000        | 99,000                         | 0  | 17,135                            | 486,135       |
|  | 2011 | 292,000        | 135,000       | 0                              | 2,080                                      | 16,631                            | 445,711       |
| Patricia N. Egan<br>Chief Financial Officer  | 2013 | 225,000        | 40,000        | 21,852                         | 0  | 17,598                            | 304,450       |
|  | 2012 | 194,000        | 15,000        | 36,300                         | 0  | 17,097                            | 262,397       |
|  | 2011 | 186,000        | 25,000        | 0                              | 4,810                                      | 16,596                            | 232,406       |
| Daniel B. Wolfe<br>President, Chief Operating Officer, and a<br>Managing Director  | 2013 | 322,000        | 150,000       | 59,598                         | 0  | 17,615                            | 549,213       |
|  | 2012 | 315,000        | 35,000        | 99,000                         | 0  | 17,113                            | 466,113       |
|  | 2011 | 292,000        | 130,000       | 0                              | 0  | 16,612                            | 438,612       |
| Alexei A. Andreev<br>Managing Director, Executive Vice<br>President                | 2013 | 311,000        | 150,000       | 59,598                         | 0  | 17,500                            | 538,098       |
|  | 2012 | 304,000        | 35,000        | 99,000                         | 0  | 17,000                            | 455,000       |
|  | 2011 | 292,000        | 125,000       | 0                              | 51,493                                     | 16,500                            | 484,993       |
| Misti Ushio<br>Managing Director, Executive Vice<br>President                      | 2013 | 311,000        | 150,000       | 59,598                         | 0  | 17,643                            | 538,241       |
|  | 2012 | 304,000        | 35,000        | 99,000                         | 0  | 17,142                            | 455,142       |
|  | 2011 | 265,000        | 125,000       | 0                              | 0  | 16,641                            | 406,641       |



**2013 Outstanding Equity Awards at Fiscal Year-End**

The following table presents information regarding the outstanding equity awards held by each of the named executive officers as of December 31, 2013.

| Name               | Stock Awards                                   |  |
|--------------------|--|--|
|                    | Number of Shares of Stock That Have Not Vested | Market Value of Shares of Stock That Have Not Vested |
|                    | (#)  | (\$)   |
| Douglas W. Jamison | 250,200 <sup>(1)</sup>                         | 745,596  |
| Patricia N. Egan   | 91,740 <sup>(2)</sup>                          | 273,385  |
| Daniel B. Wolfe    | 250,200 <sup>(1)</sup>                         | 745,596  |
| Alexei A. Andreev  | 250,200 <sup>(1)</sup>                         | 745,596  |
| Misti Ushio        | 250,200 <sup>(1)</sup>                         | 745,596  |

(1) 10,200 shares will vest on June 30, 2014; 9,900 shares will vest on December 31, 2014; 9,900 shares will vest on June 30, 2015; 10,200 shares will vest on December 31, 2015; 9,900 shares will vest on June 30, 2016; 9,900 shares will vest on December 31, 2016; and 10,200 shares will vest on June 30, 2017, subject to the named executive officer still being employed by us on the respective vesting date. However, in the event of termination prior to a vesting date due to death or disability, restrictions on time-based awards lapse to the extent the award otherwise would have vested within six months from termination. 36,000 shares will vest when the volume weighted stock price over a 30-day period is at or above each of \$5.00, \$6.00, \$7.00, \$8.00 and \$9.00, subject to the named executive officer still being employed by us on the respective vesting date.

(2) 3,740 shares will vest on June 30, 2014; 3,630 shares will vest on December 31, 2014; 3,630 shares will vest on June 30, 2015; 3,740 shares will vest on December 31, 2015; 3,630 shares will vest on June 30, 2016; 3,630 shares will vest on December 31, 2016; and 3,740 shares will vest on June 30, 2017, subject to Ms. Egan still being employed by us on the respective vesting date. However, in the event of termination prior to a vesting date due to death or disability, restrictions on time-based awards lapse to the extent the award otherwise would have vested within six months from termination. 13,200 shares will vest when the volume weighted stock price over a 30-day period is at or above each of \$5.00, \$6.00; \$7.00; \$8.00 and \$9.00, subject to Ms. Egan still being employed by us on the respective vesting date.

## 2013 Option Exercises and Stock Vested

The following table sets forth information regarding shares of restricted stock for which forfeiture restrictions lapsed during the fiscal year ended December 31, 2013. None of the named executive officers held or exercised stock options in 2013.

| Name               | Stock Awards  |  |
|--------------------|---|--|
|                    | Number of Shares Acquired on Vesting <sup>(1)</sup> | Value Realized on Vesting <sup>(2)</sup> |
|                    | (#)   | (\$)                                     |
| Douglas W. Jamison | 19,800  | 59,598                                   |
| Patricia N. Egan   | 7,260   | 21,852                                   |
| Daniel B. Wolfe    | 19,800  | 59,598                                   |
| Alexei A. Andreev  | 19,800  | 59,598                                   |
| Misti Ushio        | 19,800  | 59,598                                   |

Number of shares acquired upon vesting is before withholding of vesting shares by the Company to satisfy tax (1)withholding obligations. Each of our named executive officers elected to satisfy tax withholding obligations by having the Company withhold a portion of the vesting shares.

(2) Value realized upon vesting is based on the closing per share trading price of our common stock on the vesting dates (\$3.04 on June 30, 2013, and \$2.98 on December 31, 2013).

## Potential Payments upon Termination or Change in Control

None of our executive officers is party to a change in control or severance agreement with us. Our restricted stock award agreements contain a provision that upon a change of control, the awards of restricted stock would vest immediately. Other than this provision in the restricted stock award agreements, none of our named executive officers is entitled to any special payments solely upon a change in control. The number of shares and value of restricted stock for the named executive officers as of December 31, 2013, that would have vested upon a change of control is shown under the chart entitled "2013 Outstanding Equity Awards at Fiscal Year-End."

## Remuneration of Directors

The following table sets forth the compensation paid by us to our directors for the year ended December 31, 2013. During 2013, we did not pay or accrue any pension or retirement benefits for our non-employee directors.



**2013 Director Compensation**

| Name of Director                | Fees Earned or<br>Paid in Cash<br>(\$) | Stock<br>Awards<br>(\$) <sup>(2)</sup> | All Other<br>Compensation<br>(\$) | Total (\$) |
|---------------------------------|--|--|-----------------------------------|------------|
| <b>Independent Directors:</b>   |  |  |                                   |            |
| W. Dillaway Ayres, Jr.          | 37,500                                 | 6,300                                  | 0                                 | 43,800     |
| Dr. Phillip A. Bauman           | 31,500                                 | 6,300                                  | 0                                 | 37,800     |
| Lucio L. Lanza                  | 40,500                                 | 6,300                                  | 0                                 | 46,800     |
| Charles E. Ramsey               | 36,000                                 | 6,300                                  | 0                                 | 42,300     |
| James E. Roberts <sup>(1)</sup> | 17,081                                 | 0                                      | 0                                 | 17,081     |
| Richard P. Shanley              | 48,919                                 | 6,300                                  | 0                                 | 55,219     |
| Bruce W. Shewmaker              | 27,000                                 | 6,300                                  | 0                                 | 33,300     |
| <b>Interested Directors:</b>    |  |  |                                   |            |
| Douglas W. Jamison              | 0                                      | 0                                      | 0                                 | 0          |

(1) Mr. Roberts did not stand for re-election at our 2013 Annual Meeting in May of 2013.

667 shares will vest on May 2, 2014; 667 shares will vest on May 2, 2015; and 666 shares will vest on May 2, 2016, provided that the director has been in continuous service as of that date; provided further, however, that the (2) shares would vest immediately upon a change in control. The figures in this column do not represent amounts actually paid to non-employee directors, but represent the GAAP-based grant date fair value for all shares of restricted stock granted in 2013 based on the closing price of our common stock on the date of grant.

In 2013, the Board of Directors received (1) a \$750 per month retainer for each director, a \$1,000 per month retainer for committee Chairpersons, and a \$1,250 per month retainer for the Lead Independent Director; and (2) annual meetings fees paid quarterly of \$6,000 for attendance of at least four board meetings, \$6,000 for attendance of at least four Valuation Committee meetings, \$6,000 for attendance of at least four board dinner Independent Director Committee meetings, \$6,000 for attendance of at least four Audit Committee meetings, \$3,000 for attendance of at least two Compensation Committee meetings; \$3,000 for attendance of at least two Executive Committee meetings and \$1,500 for attendance of at least one Nominating Committee meeting.

On April 3, 2012, we received an exemptive order from the SEC permitting us to award shares of restricted stock to our officers, employees and non-employee directors (the "Exemptive Order"). The Exemptive Order provides for a grant of 2,000 shares of restricted stock to our non-employee directors annually on the day of our annual meeting of shareholders for each year. One-third of the shares granted will vest on the anniversary of the grant for a three-year period. There are no outstanding option awards to outside directors.



**SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT**

(Proposal No. 2)

PricewaterhouseCoopers LLP (“PwC”) has been selected as the independent registered public accounting firm by our Audit Committee and ratified by a majority of our Board, including a majority of the independent directors by vote cast in person, to audit the accounts of the Company for and during the Company's fiscal year ending December 31, 2014. This selection is subject to ratification or rejection by the shareholders of the Company. The Company knows of no direct or indirect financial interest of PwC in the Company.

Representatives of PwC will not attend the Annual Meeting in person but will be available to respond to questions by telephone.

**Fees Paid to PwC for 2013 and 2012**

PwC performed various audit and other services for us during 2013 and 2012. The following table presents a summary of the 2013 and 2012 fees billed by PwC:

|                    | Fiscal Year Ended<br>December 31, 2013 | Fiscal Year Ended<br>December 31, 2012 |
|--------------------|--|--|
| Audit Fees         | \$ 396,500                             | \$ 395,000                             |
| Audit-Related Fees | 0                                      | 40,500                                 |
| Tax Fees           | 37,500                                 | 55,000                                 |
| All Other Fees     | 1,960                                  | 1,960                                  |
| <b>TOTAL FEES:</b> | <b>\$ 435,960</b>                      | <b>\$ 492,460</b>                      |

**Audit Fees**

Audit fees include fees for professional services rendered by PwC in connection with its annual audit of the Company's consolidated financial statements, reviews of the consolidated financial statements included in the Company's quarterly reports on Form 10-Q, and assistance with and review of documents filed with the SEC.

**Audit-Related Fees**

Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." This include fees billed for consultation regarding financial accounting standards and reporting standards.

### **Tax Fees**

Tax fees consist of fees billed for professional services for corporate and subsidiary tax compliance, tax advice and tax planning. These services included assistance regarding federal, state, local and international tax compliance.

### **All Other Fees**

All other fees would include fees for products and services other than the services reported above. In 2012 and 2013, these services included an accounting research tool licensed from PwC.

The Audit Committee has determined that the provision of non-audit services that were provided during 2013 is compatible with maintaining PwC's independence in performing audit services for the Company.

Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted "FOR" ratification of the appointment of PwC as the independent registered public accounting firm of the Company.

**THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.**

## ADVISORY VOTE ON EXECUTIVE COMPENSATION

(Proposal No. 3)

In accordance with Section 14A of the 1934 Act, we are providing the Company's shareholders the opportunity to vote on a non-binding, advisory resolution to approve the compensation of our named executive officers, which is described in the section titled "Compensation Discussion & Analysis" and the accompanying tabular and narrative disclosure in this Proxy Statement that are required to be disclosed pursuant to Regulation S-K Item 402.

As described in the section titled "Compensation Discussion & Analysis," our executive compensation program is designed to attract, motivate and retain employees by providing market-competitive compensation while preserving company resources in order to maintain our leadership position as a venture capital firm. Shareholders are urged to read the Compensation Discussion & Analysis section of this Proxy Statement, which more thoroughly discusses how our compensation policies and procedures implement our compensation philosophy. The Committee and the Board believe that these policies and procedures are effective in implementing our compensation philosophy and in achieving its goals.

The Committee seeks to retain employees and also to ensure that, in the future, they are compensated competitively when we recognize gains either through the sale of our portfolio companies or through their completion of IPOs. The Committee believes that retention is especially important for a company of our size (11 full-time and 2 part-time employees as of December 31, 2013), the specialized nature of our business and the long-term nature of our venture capital investments.

In 2013, the main elements of our compensation program were base salary, a bonus opportunity, existing restricted stock grants and other benefits and perquisites.

While the Committee considers the financial performance of the Company and its portfolio companies when it makes compensation decisions, it is cognizant that based on the nature of making venture capital investments in early-stage companies, most of which are currently privately held, financial performance, including the Company's stock price, must be considered in the context of the long-term nature of the business.

Accordingly, the following resolution will be submitted for a shareholder vote at the Annual Meeting:

“RESOLVED, that the shareholders of Harris & Harris Group, Inc. (the “Company”) approve, on an advisory basis, the overall compensation of the Company’s named executive officers, as described in the Compensation Discussion & Analysis section and the accompanying tabular and narrative disclosure set forth in the Proxy Statement for this Annual Meeting.”

This vote is merely advisory and will not be binding upon the Company or the Board. However, the Board values constructive dialogue on executive compensation and other important governance topics with the Company's shareholders and encourages all shareholders to vote their shares on this matter.

The Company intends to hold this shareholder advisory vote to approve executive compensation annually until the Company holds its next advisory vote on the frequency of shareholder advisory votes on executive compensation as required pursuant to Section 14A of the 1934 Act.

Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted "FOR" this resolution.

**THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.**



## OTHER BUSINESS

The Board does not intend to bring any other matters before the Annual Meeting and, at the date of mailing of this Proxy Statement, has not been informed of any matter that others may bring before the Annual Meeting. However, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with their judgment on such matters.

### Annual Reports on Form 10-K

Our Annual Report on Form 10-K, as filed with the SEC, is being delivered with this Proxy Statement.

We undertake to provide, without charge, to each shareholder as of March 13, 2014, upon the written request of such shareholder, a copy of our Annual Report on Form 10-K and/or our last Quarterly Report on Form 10-Q, including the financial statements and the financial statement schedules, required to be filed with the SEC for our most recent fiscal year and/or quarter. Any shareholder who would like to request a copy of our most recent Annual Report on Form 10-K or Quarterly Report on Form 10-Q may do so by calling toll-free 1-877-846-9832 or submitting a written request to the following address, which shall contain a representation in good faith that such shareholder was a beneficial owner, as of March 13, 2014, of our securities, entitled to vote:

Investor Relations  
Harris & Harris Group, Inc.  
1450 Broadway, 24<sup>th</sup> Floor  
New York, NY 10018

By Order of the Board of Directors,  
New York, New York  
March 31, 2014  
Sandra M. Forman  
Secretary



