

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

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))

Definitive 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):

No 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 42nd and 43rd 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, 24th 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 42nd and 43rd 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, 24th 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, 24th Floor, New York, New York 10018.

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

* Less than 1 percent.

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

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

(3)

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 Beneficially Owned ⁽¹⁾⁽²⁾⁽³⁾
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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 ⁽⁴⁾	Over \$100,000
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(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, 24th 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 ⁽¹⁾	Richard P. Shanley ⁽¹⁾	W. Dillaway Ayres ⁽¹⁾
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 ⁽¹⁾	Lucio L. Lanza ⁽¹⁾	Richard P. Shanley ⁽¹⁾
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