

## **Corporate Governance Guidelines of Harris & Harris Group, Inc.**

**Adopted as of November 2, 2006**

**Amended on November 1, 2007**

**Amended on October 30, 2008**

**Amended on November 5, 2009**

**Amended on March 11, 2010**

The following Corporate Governance Guidelines have been adopted by the Board of Directors (the “Board”) of Harris & Harris Group, Inc. (the “Company”) to assist the Board in the exercise of its responsibilities. These Corporate Governance Guidelines are not intended to change or interpret any Federal or state law or regulation, including the New York Business Corporation Law, or the Certificate of Incorporation or By-laws of the Company. These Corporate Governance Guidelines are subject to modification from time to time by the Board.

### **THE BOARD**

#### **Role of Directors**

The business and affairs of the Company shall be managed by or under the direction of the Board. A director is expected to spend the time and effort necessary to properly discharge such director's responsibilities. Accordingly, a director is expected to regularly attend meetings of the Board and committees on which such director sits, and to review prior to meetings material distributed in advance for such meetings. A director who is unable to attend a meeting (which it is understood will occur on occasion) is expected to notify the Chairman of the Board or the Chairman of the appropriate committee in advance of such meeting.

#### **The Board's Goals**

The Board's goals are to build long-term value for the Company's stockholders and to assure the vitality of the Company for its portfolio companies, employees and the other individuals and organizations who depend on the Company.

To achieve these goals the Board will monitor both the performance of the Company (in relation to its goals, strategy and competitors) and the performance of the Chief Executive Officer, and offer him or her constructive advice and feedback. When it is appropriate or necessary, it is the Board's responsibility to remove the Chief Executive Officer and to select his or her successor.

## **Selection of the Chairman of the Board**

The Board does not require the separation of the offices of the Chairman of the Board and the Chief Executive Officer. The Board shall 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.

## **Size of the Board**

The size of the Board may be increased or decreased if determined to be appropriate by the Board. For example, it may be desirable to increase the size of the Board in order to accommodate the availability of an outstanding candidate for director.

## **Selection of New Directors**

The Board shall be responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of stockholders. The Nominating Committee is responsible for identifying, screening and recommending candidates to the Board for Board membership. When formulating its Board membership recommendations, the Nominating Committee shall also consider advice and recommendations from others as it deems appropriate.

The Nominating Committee will consider 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 establish procedures, from time to time, regarding shareholder submission of candidates.

## **Board Membership Criteria**

The Nominating Committee shall be responsible for assessing the appropriate balance of criteria required of Board members.

The Nominating Committee may apply several criteria in selecting nominees. At a minimum, the Committee shall consider 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.

Each director is expected to comply with the Company's Stock Ownership Guidelines.

## **Other Public Company Directorships**

The Company does not have a policy limiting the number of other public company boards of directors upon which a director may sit, in general. However, the Nominating Committee shall consider the number of other public company boards and other boards (or comparable governing bodies) on which a prospective nominee is a member.

Although the Company does not impose a limit on outside directorships, it does recognize the substantial time commitments attendant to Board membership and expects that the members of its Board be fully committed to devoting all such time as is necessary to fulfill their Board responsibilities, both in terms of preparation for, and attendance and participation at meetings.

In addition, in recognition of the enhanced time commitments associated with membership on a public company's audit committee, the Board has adopted a policy that no member of the Audit Committee may serve simultaneously on the audit committees of more than two (2) other public companies.

### **Independence of the Board**

The Board shall be comprised of a majority of directors who qualify as non-interested directors as defined in Section 2(a)(19) of the Investment Company Act of 1940 (the "1940 Act") and the Nasdaq Stock Market ("Independent Directors").

The Chief Compliance Officer shall review annually the relationships that each director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), including additional qualifications prescribed under the 1940 Act, the listing standards of the Nasdaq Global Market or under applicable law, and shall report back to the board if any issue arises. The Board may adopt and disclose categorical standards to assist it in determining director independence. In the event that a director becomes aware of any change in circumstances that may result in such director no longer being considered independent under the 1940 Act, the listing standards of the Nasdaq Stock Market or under applicable law, the directors shall promptly inform the Chairman of the Board and the Chief Compliance Officer.

## **Lead Independent Director**

If the Chairman of the Board is not an Independent Director, the Company's Independent Directors will designate one of the Independent Directors on the Board to serve as a lead Independent Director (the "Lead Independent Director"). If the Chairman of the Board is an Independent Director then he or she shall serve as Lead Independent Director. The Lead Independent Director's duties will include coordinating the activities of the Independent Directors, coordinating the agenda for and moderating sessions of the Board's Independent Directors and other non-management directors, and facilitating communications between the other members of the Board.

In performing the duties described above, the Lead Independent Director is expected to consult with the Chairmen of the appropriate Board committees and solicit their participation in order to avoid diluting the authority or responsibilities of such committee Chairmen.

## **Directors Who Change Their Present Job Responsibility**

Directors who are also employees of the Company are expected to resign from the Board at the same time they leave employment with the Company.

The Board does not believe that non-employee directors who retire or change the position they held when they became a member of the Board should necessarily leave the Board. Promptly following such event, the director must notify the Nominating Committee, which shall review the continued appropriateness of the affected director remaining on the Board under the circumstances. The affected director is expected to act in accordance with the Nominating Committee's recommendation following such review.

## **Retirement Age**

It is the general policy of the Company that effective January 1, 2011, no director having attained the age of 75 years shall be nominated for re-election or reappointment to the Board. However, the Board may determine to waive this policy in individual cases.

## **Director Tenure**

In connection with each director nomination recommendation, the Nominating Committee shall consider the issue of continuing director tenure and take steps as may be appropriate to ensure that the Board maintains an openness to new ideas and a willingness to critically re-examine the status quo. An individual director's renomination is dependent upon such director's performance, as well as a suitability review, each to be conducted by the Nominating Committee in connection with each director nomination recommendation.

## **Board Compensation**

A director who is also an officer of the Company shall not receive additional compensation for such service as a director.

The Company believes that compensation for non-employee directors should be competitive and should encourage increased ownership of the Company's stock through the payment of a portion of director compensation in options to purchase Company stock or similar compensation, subject to receiving an exemptive order from the Securities and Exchange Commission and approval from shareholders. Directors may also choose to purchase shares with some or all of their cash compensation. The Compensation Committee will periodically review the level and form of the Company's director compensation. Such review will also include a review of both direct and indirect forms of compensation to the Company's directors, including any charitable contributions by the Company to organizations in which a director is affiliated and consulting or other similar arrangements between the Company and a director. Changes to director compensation will be proposed to the full Board for consideration.

Director's fees (including any additional amounts paid to the Lead Independent Director and to members of committees of the Board) are the only compensation a member of the Audit Committee may receive from the Company.

### **Separate Sessions of Independent Directors**

The Independent Directors of the Company shall meet in executive session without management on a regularly scheduled basis, but no less than four times a year. The Lead Independent Director shall preside at such executive sessions, or in such director's absence, another Independent Director designated by the Lead Independent Director shall preside at such executive sessions.

### **Communication with Directors**

Any interested parties desiring to communicate with the Lead Independent Director and the other non-management directors regarding the Company may directly contact such directors by mail. To communicate with the Board 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., 111 West 57th Street, Suite 1100, New York, New York 10019. Such correspondence will be forwarded to the appropriate board member or members after screening to eliminate marketing and junk mail.

### **Self-Evaluation by the Board**

The General Counsel will sponsor an annual self-assessment of the Board's performance as well as the performance of the committees of the Board, the results of which will be discussed with the full Board. The assessment should include a review of any areas in which the Board or management believes the Board can make a better contribution to the Company. The Nominating Committee will utilize the results of this self-evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board and making recommendations to the Board with respect to assignments of Board members to various committees.

## **Strategic Direction of the Company**

Normally it is management's job to formalize, propose and implement strategic choices and the Board's role to approve strategic direction and evaluate strategic results. However, as a practical matter, the Board and management will be better able to carry out their respective strategic responsibilities if there is an ongoing dialogue among the Chief Executive Officer, other members of top management and other Board members. To facilitate such discussions, members of senior management who are not directors may be invited to participate in Board meetings when appropriate.

## **Board Access to Management**

Board members shall have access to the Company's management and, as appropriate, to the Company's outside advisors. Board members shall coordinate such access through the Chairman of the Board.

## **Attendance of Management Personnel at Board Meetings**

The Board encourages the Chief Executive Officer to bring members of management from time to time into Board meetings to (i) provide management insight into items being discussed by the Board which involve the manager; (ii) make presentations to the Board on matters which involve the manager; and (iii) bring managers with significant potential into contact with the Board. Attendance of such management personnel at Board meetings is at the discretion of the Board.

## **Board Materials Distributed in Advance**

Information and materials that are important to the Board's understanding of the agenda items and other topics to be considered at a Board meeting should, to the extent practicable, be distributed sufficiently in advance of the meeting to permit prior review by the directors. In the event of a pressing need for the Board to meet on short notice or if such materials would otherwise contain highly confidential or sensitive information, it is recognized that written materials may not be available in advance of the meeting.

## **Board Minutes**

No changes, deletions or additions to approved minutes or attachments are permitted without the express approval of the Board, duly noted in its minutes.

## **Board Interaction with Institutional Investors, Analysts, Press and Customers**

The Board believes that management generally should speak for the Company. Each director shall refer all inquiries from institutional investors, analysts, the press or customers to the Chief Executive Officer, the President, the Chief Financial Officer, or his or her designee.

## **Board Orientation and Continuing Education**

The Company shall provide new directors with a director orientation, under the direction of the General Counsel, to familiarize such directors with, among other things, the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct and ethics, corporate governance guidelines, principal officers, internal auditors and independent auditors. Each director is expected to participate in Company sponsored training programs in order to maintain the necessary level of expertise to perform his or her responsibilities as a director.

## **Director Attendance at Annual Meetings of Shareholders**

Our Directors are encouraged to attend the Company's annual meeting of shareholders. A director who is unable to attend the Company's annual meeting of shareholders (which it is understood will occur on occasion) is expected to notify the Chairman of the Board.

## **BOARD MEETINGS**

### **Frequency of Meetings**

There shall be four regularly scheduled meetings of the Board each year. The Chairman of the Board of Directors may call, and at the request of any two directors must call, a special meeting of the Board of Directors, three days notice of which shall be given by overnight United States Mail or by Federal Express or any other private overnight courier service, or two days notice of which shall be given personally or by telephone, telecopier or telefax (or similar communications equipment), telegram or cable, to each director.

### **Selection of Agenda Items for Board Meetings**

The Chairman of the Board, in consultation with the Lead Independent Director and the General Counsel, shall annually prepare a "Board of Directors Master Agenda." This Master Agenda shall set forth a general agenda of items to be considered by the Board at each of its specified meetings during the year. Thereafter, the Chairman of the Board, in consultation with the Lead Independent Director and the General Counsel, may adjust the agenda to include special items not contemplated during the initial preparation of the annual Master Agenda.

Upon completion, a copy of the Master Agenda shall be provided to the entire Board. Each Board member shall be free to suggest inclusion of items on the agenda as well as free to raise at any Board meeting subjects that are not specifically on the agenda for that meeting.

## **COMMITTEE MATTERS**

### **Number and Names of Board Committees**

The Company shall have six standing committees: Audit, Nominating, Compensation, Executive, Independent and Valuation. The purpose and responsibilities for at least the Audit, Nominating and Compensation committees shall be outlined in committee charters adopted by the Board. The Board may want, from time to time, to form a new committee or disband a current committee depending on circumstances. In addition, the Board may determine to form ad hoc committees from time to time, and determine the composition and areas of competence of such committees.

### **Independence of Board Committees**

Each of the Audit Committee, the Nominating Committee and the Compensation Committee shall be composed entirely of Independent Directors satisfying applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee.

### **Assignment and Rotation of Committee Members**

The Nominating Committee shall be responsible, after consultation with the Chairman of the Board and the Lead Independent Director, for making recommendations to the Board with respect to the assignment of Board members to various committees. After reviewing the Nominating Committee's recommendations, the Board shall be responsible for appointing the Chairman and members to the committees on an annual basis.

The Nominating Committee shall annually review the Committee assignments and shall consider the rotation of the Chairman and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various directors. With regard to the Chairman of the Nominating Committee, such position shall rotate at least once every three years.

## **SUCCESSION PLANNING**

The Board shall plan for the succession to the position of the Chief Executive Officer. The Company's Business Continuity Plan shall provide for short-term succession in the case of an emergency. Such Business Continuity Plan shall be reviewed by the President, Chief Financial Officer and Chief Compliance Officer on an annual basis and approved by the Board.