Digirolomo Enrico
Form 4
August 30, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Digirolomo Enrico

(Last) (First) (Middle)

C/O II-VI INCORPORATED, 375 SAXONBURG BLVD.

(Street)

SAXONBURG, PA 16056

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
II-VI INC [IIVI]

3. Date of Earliest Transaction (Month/Day/Year)
08/28/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/28/2018		A		1,608 (1)	A	$ 0	1,608	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. P Der Sec (Ins
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Option (Right to Buy)	$ 49.9	08/28/2018		A		4,020		(2)	08/28/2028	Common Stock	4,020	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Digirolomo Enrico C/O II-VI INCORPORATED 375 SAXONBURG BLVD. SAXONBURG, PA 16056	X			

Signatures

/s/ Jeffrey W. Acre, Attorney-in-Fact	08/30/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These shares represent a restricted stock award granted to the reporting person pursuant to the II-VI Incorporated Amended and Restated 2012 Omnibus Incentive Plan. The award will vest in three equal annual installments beginning on August 28, 2019.

(2) These options will vest in four equal annual installments beginning on August 28, 2019.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. : Times New Roman">Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2: Quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- Level 3: Unobservable inputs for the asset or liability.

At December 31, 2009, all of our private portfolio investments were classified as Level 3 in the hierarchy, indicating a high level of judgment required in their valuation.

The values assigned to our assets are based on available information and do not necessarily represent amounts that might ultimately be realized, as these amounts depend on future circumstances and cannot be reasonably determined until the individual investments are actually liquidated or become readily marketable. Upon sale of investments, the values that are ultimately realized may be different from what is presently estimated. This difference could be material.

Stock-Based Compensation

Determining the appropriate fair-value model and calculating the fair value of share-based awards on the date of grant requires judgment. Historically, we have used the Black-Scholes-Merton option pricing model to estimate the fair value of employee stock options. During the quarter ended March 31, 2009, we used the Black-Scholes-Merton option pricing model and a binomial lattice option pricing model to estimate the fair value of the two-year non-qualified stock options "NQSOs" and the 10-year NQSOs, respectively, granted on March, 18, 2009. During the quarter ended June 30, 2009, we used the Black-Scholes-Merton option pricing model to estimate the fair value of the two-year and the 10-year NQSOs granted on May 13, 2009. During the quarter ended December 31, 2009, we used the Black-Scholes-Merton option pricing model to estimate the fair value of the five-year NQSOs granted on November 11, 2009.

Management uses the Black-Scholes-Merton option pricing model in instances where we lack historical data necessary for more complex models and when the share award terms can be valued within the model. Other models may yield fair values that are significantly different from those calculated by the Black-Scholes-Merton option pricing model.

Management uses a binomial lattice option pricing model in instances where it is necessary to include a broader array of assumptions. We used the binomial lattice model for the 10-year NQSOs granted on March 18, 2009. These awards included accelerated vesting provisions that are based on market conditions. At the date of the grant, management's analysis concluded that triggering of the market condition acceleration clause is probable.

Option pricing models require the use of subjective input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. Variations in the expected volatility or expected term assumptions have a significant impact on fair value. As the volatility or expected term assumptions increase, the fair value of the stock option increases. The expected dividend rate and expected risk-free rate of return are not as significant to the calculation of fair value. A higher assumed dividend rate yields a lower fair value, whereas higher assumed interest rates yield higher fair values for stock options.

In the Black-Scholes-Merton model, we use the simplified calculation of expected term as described in the SEC's Staff Accounting Bulletin 107 because of the lack of historical information about option exercise patterns. In the binomial lattice model, we use an expected term that assumes the options will be exercised at two-times the strike price because of the lack of option exercise patterns. Future exercise behavior could be materially different than that which is assumed by the model.

Expected volatility is based on the historical fluctuations in the Company's stock. The Company's stock has historically been volatile, which increases the fair value of the underlying share-based awards.

GAAP requires us to develop an estimate of the number of share-based awards that will be forfeited owing to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as the effect of adjusting the rate for all expense amortization after the grant date is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate proves to be higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which would result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate proves to be lower than the estimated forfeiture rate, then an adjustment will be made to decrease the estimated forfeiture rate, which would result in an increase to the expense recognized in the financial statements. Such adjustments would affect our operating expenses and additional paid-in capital, but would have no effect on our net asset value.

Pension and Post-Retirement Benefit Plan Assumptions

The Company provides a Retiree Medical Benefit Plan for employees who meet certain eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability values related to our post-retirement benefit plans. These factors include assumptions we make about the discount rate, the rate of increase in healthcare costs, and mortality, among others.

The discount rate reflects the current rate at which the post-retirement benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider the Citigroup Pension Liability Index in the determination of the appropriate discount rate assumptions. The weighted average rate we utilized to measure our post retirement medical benefit obligation as of December 31, 2009, and to calculate our 2010 expense was 5.72 percent. A rate of 6.55 percent was used in determining the 2008 expense and a rate of 5.71 percent was used in calculating the 2008 benefit obligation. We used a discount rate of 5.75 percent to calculate our pension obligation.

Recent Developments — Portfolio Companies

On January 15, 2010, we made a $250,000 new investment in ABS Materials, Inc., a privately held tiny technology company.

On January 19 and February 19, 2010, we made two follow-on investments totaling $171,975 in a privately held tiny technology portfolio company.

On January 20 and February 10, 2010, we made two follow-on investments totaling $4,564 by exercising our warrants to purchase shares of common stock of NeoPhotonics Corporation, a privately held tiny technology portfolio company.

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On February 5, 2010, we made a $98,427 follow-on investment in Orthovita, Inc., a publicly traded tiny technology portfolio company.

On February 10, 2010, we made a $500,000 follow-on investment in a privately held tiny technology portfolio company.

On February 24, 2010, CFX Battery, Inc., changed its name to Contour Energy Systems, Inc.

On March 8, 2010, we made a $99,957 new investment in Satcon Technology Corporation, a publicly traded tiny technology company.

On March 10, 2010, we made a $250,041 follow-on investment in a privately held tiny technology portfolio company.

On December 31, 2009, we valued the shares of one of our privately held tiny technology portfolio companies at $0.9696 per share. On March 10, 2010, that company raised additional funding from a third party, independent financial investor at the equivalent of $1.26 per share. This transaction could be a material input to our determination of the value of our shares of this portfolio company at March 31, 2010. A valuation calculated based on this input alone could increase the value of this portfolio company at March 31, 2010, ranging from $0 to approximately $1,400,000, or $0 to approximately $0.05 per share, from the value at December 31, 2009. This input will be one of many used by our Valuation Committee, which is made up of all of our independent directors, to set the value of this portfolio company at March 31, 2010.

One of our portfolio companies has engaged an investment banker for purposes of filing for an IPO in 2010. There can be no assurance that this portfolio company will file for an IPO in 2010, and a variety of factors, including stock market and general business conditions, legal considerations and audit results, could lead it to terminate such consideration.

Item 6A. Quantitative and Qualitative Disclosures About Market Risk.

Our business activities contain elements of risk. We consider the principal types of market risk to be valuation risk, interest rate risk and foreign currency risk. Although we are risk-seeking rather than risk-averse in our investments, we consider the management of risk to be essential to our business.

Valuation Risk

Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which market quotations are readily available and (ii) fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See the "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments" contained in "Item 7. Consolidated Financial Statements and Supplementary Data.")

Because there is typically no public market for our interests in the small privately held companies in which we invest, the valuation of the equity interests in that portion of our portfolio is determined in good faith by our Valuation Committee, comprised of the independent members of our Board of Directors, in accordance with our Valuation Procedures. In the absence of a readily ascertainable market value, the determined value of our portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Any changes in valuation are recorded in our Consolidated Statement of Operations as "Net decrease (increase) in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be volatile.

Investments in privately held, early-stage companies are inherently more volatile than investments in more mature businesses. Such immature businesses are inherently fragile and easily affected by both internal and external forces. Our investee companies can lose much or all of their value suddenly in response to an internal or external adverse event. Conversely, these immature businesses can gain suddenly in value in response to an internal or external positive development.

Interest Rate Risk

We generally also invest in both short and long-term U.S. government and agency securities. To the extent that we invest in short and long-term U.S. government and agency securities, changes in interest rates result in changes in the value of these obligations that result in an increase or decrease of our net asset value. The level of interest rate risk exposure at any given point in time depends on the market environment, the expectations of future price and market movements, and the quantity and duration of long-term U.S. government and agency securities held by the Company, and it will vary from period to period. If the average interest rate on U.S. government securities at December 31, 2009, were to increase by 25, 75 and 150 basis points, the average value of these securities held by us at December 31, 2009, would decrease by approximately $130,438, $391,313 and $782,625, respectively, and our net asset value would decrease correspondingly.

In addition, in the future, we may from time to time opt to borrow money to make investments. Our net investment income will be dependent upon the difference between the rate at which we borrow funds and the rate at which we invest such funds. As a result, there can be no assurance that a significant change in market interest rates and the current credit crisis will not have a material adverse effect on our net investment income in the event we choose to borrow funds for investing purposes.

Foreign Currency Risk

Most of our investments are denominated in U.S. dollars. We currently have one investment denominated in Canadian dollars. We are exposed to foreign currency risk related to potential changes in foreign currency exchange rates. The potential loss in fair value on this investment resulting from a 10 percent adverse change in quoted foreign currency exchange rates is $309,762 at December 31, 2009.

Item 7. Consolidated Financial Statements and Supplementary Data.

HARRIS & HARRIS GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The following reports and consolidated financial schedules of Harris & Harris Group, Inc. are filed herewith and included in response to Item 7.

Documents

Schedules other than those listed above have been omitted because they are not applicable or the required information is presented in the consolidated financial statements and/or related notes.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the results of this assessment, management (including our Chief Executive Officer and Chief Financial Officer) has concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 72 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Harris & Harris Group, Inc.:

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, changes in net assets, cash flows, and the financial highlights present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations, their cash flows, the changes in their net assets, and the financial highlights for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 71 of the 2009 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As more fully disclosed in Note 2 of the Notes to the Consolidated Financial Statements, the financial statements include investments valued at $77,797,086 (58% of net assets) at December 31, 2009, the fair values of which have been estimated by the Board of Directors in the absence of readily ascertainable market values. These estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 15, 2010

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2009	December 31, 2008
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: $26,977,200 and $24,208,281, respectively)	$ 21,656,436	$ 12,086,503
Unaffiliated publicly traded securities (cost: $298,827 and $0, respectively)	226,395	0
Non-controlled affiliated privately held companies (cost: $54,864,948 and $60,796,720, respectively)	50,297,220	39,650,187
Controlled affiliated privately held companies (cost: $10,248,932 and $6,085,000, respectively)	5,843,430	5,228,463
Total, investments in private portfolio companies and public securities at value (cost: $92,389,907 and $91,090,001, respectively)	$ 78,023,481	$ 56,965,153
Investments, in U.S. Treasury obligations at value (cost: $55,960,024 and $52,956,288, respectively)	55,947,581	52,983,940
Cash	1,611,465	636,333
Restricted funds (Note 7)	2,000	191,955
Receivable from portfolio company	28,247	0
Interest receivable	25,832	56
Prepaid expenses	94,129	484,567
Other assets	376,366	365,597
Total assets	$ 136,109,101	$ 111,627,601
LIABILITIES & NET ASSETS		
Post retirement plan liabilities (Note 7)	$ 1,369,843	$ 1,399,048
Accounts payable and accrued liabilities	579,162	689,300
Deferred rent	1,838	8,140
Total liabilities	1,950,843	2,096,488
Net assets	$ 134,158,258	$ 109,531,113
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$ 0	$ 0
Common stock, $0.01 par value, 45,000,000 shares authorized at 12/31/09 and 12/31/08; 32,688,333 issued at 12/31/09 and 27,688,313 issued at 12/31/08	326,884	276,884
Additional paid in capital (Note 10)	205,977,117	181,251,507
Accumulated net operating and realized loss	(54,361,343)	(34,494,551)
Accumulated unrealized depreciation of investments	(14,378,869)	(34,097,196)
Treasury stock, at cost (1,828,740 shares at 12/31/09 and 12/31/08)	(3,405,531)	(3,405,531)
Net assets	$ 134,158,258	$ 109,531,113

Shares outstanding		30,859,593		25,859,573
Net asset value per outstanding share	$	4.35	$	4.24

The accompanying notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Investment income:			
Interest from:			
Fixed-income securities and bridge notes	$ 214,760	$ 1,971,178	$ 2,705,597
Miscellaneous income	33,088	16,169	39
Total investment income	247,848	1,987,347	2,705,636
Expenses:			
Salaries, benefits and stock-based compensation (Note 5)	6,327,467	10,090,658	11,435,329
Administration and operations	1,125,266	1,160,025	1,432,653
Professional fees	767,077	694,007	902,911
Rent	316,604	276,023	235,998
Directors' fees and expenses	338,227	367,383	435,060
Depreciation	50,965	54,795	63,113
Custody fees	83,457	31,607	28,115
Total expenses	9,009,063	12,674,498	14,533,179
Net operating loss	(8,761,215)	(10,687,151)	(11,827,543)
Net realized (loss) gain from investments:			
Realized (loss) gain from:			
Unaffiliated companies	(2,264,330)	3,588	119,082
Non-controlled affiliated companies	(8,841,675)	(6,509,404)	0
Controlled affiliated companies	0	(2,893,487)	0
U.S. Treasury obligations/other	(325)	1,109,790	(945)
Realized (loss) gain from investments	(11,106,330)	(8,289,513)	118,137
Income tax (benefit) expense (Note 8)	(753)	34,121	87,975
Net realized (loss) gain from investments	(11,105,577)	(8,323,634)	30,162
Net decrease (increase) in unrealized depreciation on investments:			
Change as a result of investment sales	11,090,579	8,292,072	0
Change on investments held	8,627,748	(38,462,784)	5,080,936
Net decrease (increase) in unrealized depreciation on investments	19,718,327	(30,170,712)	5,080,936
Net decrease in net assets resulting from operations	$ (148,465)	$ (49,181,497)	$ (6,716,445)
Per average basic and diluted outstanding share	$ (0.01)	$ (1.99)	$ (0.30)
Average outstanding shares	27,025,995	24,670,516	22,393,030

The accompanying notes are an integral part of these consolidated financial statements.

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Explanation of Responses:

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash flows (used in) provided by operating activities:			
Net decrease in net assets resulting from operations	$ (148,465)	$ (49,181,497)	$ (6,716,445)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:			
Net realized and unrealized loss (gain) on investments	(8,611,997)	38,460,225	(5,199,073)
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	12,363	(179,809)	(60,009)
Stock-based compensation expense	3,089,520	5,965,769	8,050,807
Changes in assets and liabilities:			
Restricted funds	189,955	2,475,065	(517,235)
Receivable from portfolio company	(28,247)	524	(524)
Interest receivable	35,365	621,856	(21,965)
Prepaid expenses	390,438	4,100	(477,722)
Other receivables	(7,454)	0	819,905
Other assets	(52,965)	88,936	(152,012)
Post retirement plan liabilities	(29,205)	102,210	124,171
Accounts payable and accrued liabilities	(110,138)	(2,529,325)	275,992
Accrued profit sharing	0	0	(261,661)
Deferred rent	(6,302)	(6,385)	(6,801)
Net cash used in operating activities	(5,277,132)	(4,178,331)	(4,142,572)
Cash flows from investing activities:			
Purchase of U.S. government securities	(208,875,156)	(133,032,933)	(60,744,292)
Sale of U.S. government securities	205,769,329	140,831,769	60,508,538
Investment in venture capital investments	(12,334,051)	(17,779,462)	(20,595,161)
Proceeds from sale of investments	7,365	136,837	174,669
Purchase of fixed assets	(1,313)	(21,969)	(41,640)
Net cash used in investing activities	(15,433,826)	(9,865,758)	(20,697,886)
Cash flows from financing activities:			
Gross proceeds from public offering (Note 10)	23,215,625	15,651,750	14,027,000
Gross expenses for public offering (Note 10)	(1,951,485)	(1,268,253)	(1,033,832)
Proceeds from stock option exercises (Note 5)	421,950	0	10,105,511
Net cash provided by financing activities	21,686,090	14,383,497	23,098,679
Net increase (decrease) in cash:			
Cash at beginning of the year	636,333	296,925	2,038,704

Cash at end of the year		1,611,465		636,333		296,925
Net increase (decrease) in cash	$	975,132	$	339,408	$	(1,741,779)
Supplemental disclosures of cash flow information:						
Income taxes paid	$	2,179	$	45,765	$	80,236

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Changes in net assets from operations:			
Net operating loss	$ (8,761,215)	$ (10,687,151)	$ (11,827,543)
Net realized (loss) gain on investments	(11,105,577)	(8,323,634)	30,162
Net decrease in unrealized depreciation on investments as a result of sales	11,090,579	8,292,072	0
Net decrease (increase) in unrealized depreciation on investments held	8,627,748	(38,462,784)	5,080,936
Net decrease in net assets resulting from operations	(148,465)	(49,181,497)	(6,716,445)
Changes in net assets from capital stock transactions:			
Issuance of common stock upon the exercise of stock options	1,125	0	9,996
Issuance of common stock on offering	48,875	25,450	13,000
Additional paid in capital on common stock issued	21,636,090	14,358,047	23,075,683
Stock-based compensation expense	3,089,520	5,965,769	8,050,807
Net increase in net assets resulting from capital stock transactions	24,775,610	20,349,266	31,149,486
Net increase (decrease) in net assets	24,627,145	(28,832,231)	24,433,041
Net Assets:			
Beginning of the year	109,531,113	138,363,344	113,930,303
End of the year	$ 134,158,258	$ 109,531,113	$ 138,363,344

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Unaffiliated Companies (2)(3)(4) – 16.3% of net assets at value				
Private Placement Portfolio (Illiquid) – 16.1% of net assets at value				
BioVex Group, Inc. (5)(6)(7)(8) — Developing novel biologics for treatment of cancer and infectious disease				
Series E Convertible Preferred Stock	(M)	2,799,552	$	1,042,862
Series G Convertible Preferred Stock	(M)	3,738,004		627,985
Warrants at $0.21 expiring 11/5/16	(I)	285,427		20,836
				1,691,683
Cobalt Technologies, Inc. (5)(6)(7)(9) — Developing processes for making biobutanol through biomass fermentation				
Series C Convertible Preferred Stock	(M)	352,112		375,000
D-Wave Systems, Inc. (5)(6)(7)(10) — Developing high-performance quantum computing systems				
Series B Convertible Preferred Stock	(M)	1,144,869		907,612
Series C Convertible Preferred Stock	(M)	450,450		357,101
Series D Convertible Preferred Stock	(M)	1,533,395		1,215,622
				2,480,335
Molecular Imprints, Inc. (5)(6) — Manufacturing nanoimprint lithography capital equipment				
Series B Convertible Preferred Stock	(M)	1,333,333		2,999,999
Series C Convertible Preferred Stock	(M)	1,250,000		2,812,500
Warrants at $2.00 expiring 12/31/11	(I)	125,000		163,625
				5,976,124
Nanosys, Inc. (5)(6) — Developing zero and one-dimensional inorganic nanometer-scale materials and devices				
Series C Convertible Preferred Stock	(M)	803,428		1,185,056
Series D Convertible Preferred Stock	(M)	1,016,950		1,500,001
				2,685,057

The accompanying notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Unaffiliated Companies (2)(3)(4) – 16.3% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) – 16.1% of net assets at value (Cont.)				
Nantero, Inc. (5)(6)(7) — Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes				
Series A Convertible Preferred Stock	(M)	345,070	$	1,046,908
Series B Convertible Preferred Stock	(M)	207,051		628,172
Series C Convertible Preferred Stock	(M)	188,315		571,329
				2,246,409
NeoPhotonics Corporation (5)(6)(11) — Developing and manufacturing optical devices and components				
Common Stock	(M)	1,100,013		739,209
Series 1 Convertible Preferred Stock	(M)	1,831,256		1,230,604
Series 2 Convertible Preferred Stock	(M)	741,898		498,555
Series 3 Convertible Preferred Stock	(M)	2,750,000		1,848,000
Series X Convertible Preferred Stock	(M)	8,923		1,427,680
Warrants at $0.15 expiring 01/26/10	(I)	16,364		11,291
Warrants at $0.15 expiring 12/05/10	(I)	14,063		9,703
				5,765,042
Polatis, Inc. (5)(6)(7) — Developing MEMS-based optical networking components				
Series A-1 Convertible Preferred Stock	(M)	16,775		0
Series A-2 Convertible Preferred Stock	(M)	71,611		0
Series A-4 Convertible Preferred Stock	(M)	4,774		0
Series A-5 Convertible Preferred Stock	(M)	16,438		0
				0
PolyRemedy, Inc. (5)(6)(7) — Developing a robotic manufacturing platform for wound treatment patches				
Series B-1 Convertible Preferred Stock	(M)	287,647		46,933
Series B-2 Convertible Preferred Stock	(M)	676,147		60,853
				107,786

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Unaffiliated Companies (2)(3)(4) – 16.3% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) – 16.1% of net assets at value (Cont.)				
Siluria Technologies, Inc. (5)(6)(7) — Developing next-generation nanomaterials				
Series S-2 Convertible Preferred Stock	(M)	612,061	$	204,000
TetraVitae Bioscience, Inc. (5)(6)(7)(12) — Developing methods of producing alternative chemicals and fuels through biomass fermentation				
Series B Convertible Preferred Stock	(M)	118,804		125,000
Total Unaffiliated Private Placement Portfolio (cost: $26,977,200)			$	21,656,436
Publicly Traded Portfolio (Liquid) – 0.2% of net assets at value				
Orthovita, Inc. (6)(13) — Developing materials and devices for orthopedic medical implant applications				
Common Stock	(M)	64,500		226,395
Total Unaffiliated Publicly Traded Portfolio (cost: $298,827)			$	226,395
Total Investments in Unaffiliated Companies (cost: $27,276,027)			$	21,882,831

The accompanying notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value				
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value				
Adesto Technologies Corporation (5)(6)(7) — Developing low-power, high-performance memory devices				
Series A Convertible Preferred Stock	(M)	6,547,619	$	2,420,000
Series B Convertible Preferred Stock	(M)	5,952,381		2,200,000
				4,620,000
BridgeLux, Inc. (5)(6) — Manufacturing high-power light emitting diodes (LEDs) and arrays				
Series B Convertible Preferred Stock	(M)	1,861,504		1,804,914
Series C Convertible Preferred Stock	(M)	2,130,699		2,065,926
Series D Convertible Preferred Stock	(M)	833,333		807,999
Warrants at $0.7136 expiring 12/31/14	(I)	163,900		98,995
Warrants at $1.50 expiring 8/26/14	(I)	124,999		55,375
				4,833,209
Cambrios Technologies Corporation (5)(6)(7) — Developing nanowire-enabled electronic materials for the display industry				
Series B Convertible Preferred Stock	(M)	1,294,025		647,013
Series C Convertible Preferred Stock	(M)	1,300,000		650,000
Series D Convertible Preferred Stock	(M)	515,756		257,878
				1,554,891
CFX Battery, Inc. (5)(6)(7)(15) — Developing batteries using nanostructured materials				
Series A Convertible Preferred Stock	(M)	2,565,798		2,822,378
Series B Convertible Preferred Stock	(M)	812,500		1,300,000
				4,122,378
Crystal IS, Inc. (5)(6) — Developing single-crystal aluminum nitride substrates for light-emitting diodes				
Common Stock	(M)	2,585,657		0
Warrants at $0.78 expiring 05/05/13	(I)	15,231		0
Warrants at $0.78 expiring 05/12/13	(I)	2,350		0
Warrants at $0.78 expiring 08/08/13	(I)	4,396		0

0

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)		Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value (Cont.)					
Ensemble Discovery Corporation (5)(6)(16) — Developing DNA- Programmed ChemistryTM for the discovery of new classes of therapeutics and bioassays					
Series B Convertible Preferred Stock	(M)		1,449,275	$	1,500,000
Unsecured Convertible Bridge Note (including interest)	(M)	$	299,169		325,506
					1,825,506
Enumeral Technologies, Inc. (5)(6)(7)(13) — Developing high-value opportunities in immunology including therapeutic discovery, immune profiling and personalized medicine					
Unsecured Convertible Bridge Note (including interest)	(M)	$	250,000		250,438
Innovalight, Inc. (5)(6)(7) — Developing solar power products enabled by silicon-based nanomaterials					
Series B Convertible Preferred Stock	(M)		16,666,666		2,969,667
Series C Convertible Preferred Stock	(M)		5,810,577		1,276,457
Series D Convertible Preferred Stock	(M)		4,046,974		721,090
					4,967,214
Kovio, Inc. (5)(6) — Developing semiconductor products using printed electronics and thin-film technologies					
Series C Convertible Preferred Stock	(M)		2,500,000		609,943
Series D Convertible Preferred Stock	(M)		800,000		195,182
Series E Convertible Preferred Stock	(M)		1,200,000		1,500,000
Warrants at $1.25 expiring 12/31/12	(I)		355,880		291,466
					2,596,591
Mersana Therapeutics, Inc. (5)(6)(7) — Developing treatments for cancer based on novel drug delivery polymers					
Series A Convertible Preferred Stock	(M)		68,451		68,451
Series B Convertible Preferred Stock	(M)		866,500		866,500
Unsecured Convertible Bridge Note (including interest)	(M)	$	650,000		708,165

Warrants at $2.00 expiring 10/21/10	(I)	91,625	16,218
			1,659,334

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value (Cont.)				
Metabolon, Inc. (5)(6) — Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform				
Series B Convertible Preferred Stock	(M)	371,739	$	1,034,061
Series B-1 Convertible Preferred Stock	(M)	148,696		413,625
Series C Convertible Preferred Stock	(M)	1,000,000		1,000,000
Warrants at $1.15 expiring 3/25/15	(I)	74,348		112,092
				2,559,778
NanoGram Corporation (5)(6) — Developing solar power products enabled by silicon-based nanomaterials				
Series I Convertible Preferred Stock	(M)	63,210		0
Series II Convertible Preferred Stock	(M)	1,250,904		0
Series III Convertible Preferred Stock	(M)	1,242,144		0
Series IV Convertible Preferred Stock	(M)	432,179		0
				0
Nextreme Thermal Solutions, Inc. (5)(6) — Developing thin-film thermoelectric devices for cooling and energy conversion				
Series A Convertible Preferred Stock	(M)	17,500		1,750,000
Series B Convertible Preferred Stock	(M)	4,870,244		2,655,257
				4,405,257
Questech Corporation (5)(6) — Manufacturing and marketing proprietary metal and stone decorative tiles				
Common Stock	(M)	655,454		425,390
Solazyme, Inc. (5)(6)(7) — Developing algal biodiesel, industrial chemicals and special ingredients based on synthetic biology				
Series A Convertible Preferred Stock	(M)	988,204		4,978,157
Series B Convertible Preferred Stock	(M)	495,246		2,494,841

Series C Convertible Preferred Stock	(M)	651,309	3,281,021
			10,754,019

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value (Cont.)				
Xradia, Inc. (5)(6) — Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems				
Series D Convertible Preferred Stock	(M)	3,121,099	$	5,723,215
Total Non-Controlled Private Placement Portfolio (cost: $54,864,948)			$	50,297,220
Total Investments in Non-Controlled Affiliated Companies (cost: $54,864,948)			$	50,297,220

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)		Shares/ Principal		Value
Investments in Controlled Affiliated Companies (2)(17) – 4.40% of net assets at value					
Private Placement Portfolio (Illiquid) – 4.40% of net assets at value					
Ancora Pharmaceuticals Inc. (5)(6)(7) — Developing synthetic carbohydrates for pharmaceutical applications					
Series B Convertible Preferred Stock	(M)		1,663,808	$	17,374
Series C Convertible Preferred Stock	(M)		2,066,051		1,239,632
					1,257,006
Laser Light Engines, Inc. (5)(6)(7) — Manufacturing solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)		7,499,062		1,000,000
Secured Convertible Bridge Note (including interest)	(M)	$	1,390,000		1,434,116
					2,434,116
SiOnyx, Inc. (5)(6)(7) — Developing silicon-based optoelectronic products enabled by its proprietary "Black Silicon"					
Series A Convertible Preferred Stock	(M)		233,499		67,843
Series A-1 Convertible Preferred Stock	(M)		2,966,667		861,965
Series A-2 Convertible Preferred Stock	(M)		4,207,537		1,222,500
					2,152,308
Total Controlled Private Placement Portfolio (cost: $10,248,932)				$	5,843,430
Total Investments in Controlled Affiliated Companies (cost: $10,248,932)				$	5,843,430
Total Private Placement and Publicly Traded Portfolio (cost: $92,389,907)				$	78,023,481

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

		Method of Valuation (1)		Shares/ Principal		Value
U.S. Government Securities (18) – 41.7% of net assets at value						
U.S. Treasury Bill	— due date 04/22/10	(M)	$	10,000,000	$	9,997,600
U.S. Treasury Bill	— due date 06/17/10	(M)		42,175,000		42,139,151
U.S. Treasury Notes	— due date 02/28/10, coupon 2.000%	(M)		3,800,000		3,810,830
Total Investments in U.S. Government Securities (cost: $55,960,024)					$	55,947,581
Total Investments (cost: $148,349,931)					$	133,971,062

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

Notes to Consolidated Schedule of Investments

(1) See Footnote to Consolidated Schedule of Investments on page 101 for a description of the Valuation Procedures.

(2) Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company or less than five percent of the common shares of the publicly traded company. Investments in non-controlled affiliated companies consist of investments in which we own five percent or more, but less than 25 percent, of the voting shares of the portfolio company, or where we hold one or more seats on the portfolio company's Board of Directors but do not control the company. Investments in controlled affiliated companies consist of investments in which we own 25 percent or more of the voting shares of the portfolio company or otherwise control the company.

(3) The aggregate cost for federal income tax purposes of investments in unaffiliated private companies is $26,977,200. The gross unrealized appreciation based on the tax cost for these securities is $2,338,205. The gross unrealized depreciation based on the tax cost for these securities is $7,658,969.

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $298,827. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $72,432.

(5) Legal restrictions on sale of investment.

(6) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(7) These investments are development-stage companies. A development-stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations, or it has commenced such operations but has not realized significant revenue from them.

(8) With our purchase of Series E Convertible Preferred Stock of BioVex, we received a warrant to purchase a number of shares of common stock of BioVex as determined by dividing 624,999.99 by the price per share at which the common stock is offered and sold to the public in connection with the IPO. The ability to exercise this warrant is therefore contingent on BioVex completing successfully an IPO before the expiration date of the warrant on September 27, 2012. The exercise price of this warrant shall be 110 percent of the IPO price.

(9) Cobalt Technologies, Inc., does business as Cobalt Biofuels.

The accompanying notes are an integral part of this consolidated schedule.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

(10) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, Inc., through D-Wave USA, a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies."

(11) We exercised NeoPhotonics Corporation warrants in January and February 2010. See "Note 12. "Subsequent Events."

(12) With our purchase of the Series B Convertible Preferred Stock of TetraVitae Bioscience, Inc., we received the right to purchase, at a price of $2.63038528 per share, a number of shares in the Series C financing equal to the number of shares of Series B Preferred Stock purchased. The ability to exercise this right is contingent on TetraVitae Bioscience completing successfully a subsequent round of financing.

(13) Initial investment was made during 2009.

(14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $54,864,948. The gross unrealized appreciation based on the tax cost for these securities is $10,648,525. The gross unrealized depreciation based on the tax cost for these securities is $15,216,253.

(15) On February 28, 2008, Lifco, Inc., merged with CFX Battery, Inc. The surviving entity is CFX Battery, Inc.

(16) With our investment in a convertible bridge note issued by Ensemble Discovery, we received a warrant to purchase a number of shares of the class of stock sold in the next financing of Ensemble Discovery equal to $149,539.57 divided by the price per share of the class of stock sold in the next financing of Ensemble Discovery. The ability to exercise this warrant is, therefore, contingent on Ensemble Discovery completing successfully a subsequent round of financing. This warrant shall expire and no longer be exercisable on September 10, 2015. The cost basis of this warrant is $89.86.

(17) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $10,248,932. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $4,405,502.

(18) The aggregate cost for federal income tax purposes of our U.S. government securities is $55,960,024. The gross unrealized appreciation on the tax cost for these securities is $0. The gross unrealized depreciation on the tax cost of these securities is $12,443.

The accompanying notes are an integral part of this consolidated schedule.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)		Shares/ Principal		Value
Investments in Unaffiliated Companies (2)(3) – 11.0% of net assets at value					
Private Placement Portfolio (Illiquid) – 11.0% of net assets at value					
BioVex Group, Inc. (4)(5)(6)(7)(8) — Developing novel biologics for treatment of cancer and infectious disease					
Series E Convertible Preferred Stock	(M)		2,799,552	$	60,750
Unsecured Convertible Bridge Note (including interest)	(M)	$	200,000		203,222
					263,972
Cobalt Technologies, Inc. (4)(5)(6)(9)(10) — Developing biobutanol through biomass fermentation					
Series C Convertible Preferred Stock	(M)		176,056		187,500
Exponential Business Development Company (4)(5) — Venture capital partnership focused on early-stage companies					
Limited Partnership Interest	(M)		1		2,219
Kereos, Inc. (4)(5)(6) — Developing emulsion-based imaging agents and targeted therapeutics to image and treat cancer and cardiovascular disease					
Common Stock	(M)		545,456		0
Molecular Imprints, Inc. (4)(5) — Manufacturing nanoimprint lithography capital equipment					
Series B Convertible Preferred Stock	(M)		1,333,333		1,083,333
Series C Convertible Preferred Stock	(M)		1,250,000		1,015,625
Warrants at $2.00 expiring 12/31/11	(I)		125,000		35,625
					2,134,583
Nanosys, Inc. (4)(5) — Developing zero and one-dimensional inorganic nanometer-scale materials and devices					
Series C Convertible Preferred Stock	(M)		803,428		2,370,113
Series D Convertible Preferred Stock	(M)		1,016,950		3,000,003
					5,370,116

The accompanying notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 11.0% of net assets at value (cont.)			
Private Placement Portfolio (Illiquid) – 11.0% of net assets at value (cont.)			
Nantero, Inc. (4)(5)(6) — Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes			
Series A Convertible Preferred Stock	(M)	345,070	$ 1,046,908
Series B Convertible Preferred Stock	(M)	207,051	628,172
Series C Convertible Preferred Stock	(M)	188,315	571,329
			2,246,409
NeoPhotonics Corporation (4)(5) — Developing and manufacturing optical devices and components			
Common Stock	(M)	716,195	181,262
Series 1 Convertible Preferred Stock	(M)	1,831,256	463,472
Series 2 Convertible Preferred Stock	(M)	741,898	187,767
Series 3 Convertible Preferred Stock	(M)	2,750,000	695,995
Series X Convertible Preferred Stock	(M)	2,000	101,236
Warrants at $0.15 expiring 01/26/10	(I)	16,364	2,373
Warrants at $0.15 expiring 12/05/10	(I)	14,063	2,349
			1,634,454
Polatis, Inc. (4)(5)(6)(11) — Developing MEMS-based optical networking components			
Series A-1 Convertible Preferred Stock	(M)	16,775	0
Series A-2 Convertible Preferred Stock	(M)	71,611	0
Series A-4 Convertible Preferred Stock	(M)	4,774	0
Series A-5 Convertible Preferred Stock	(M)	16,438	0
			0
PolyRemedy, Inc. (4)(5)(6)(9) —Developing a robotic manufacturing platform for wound treatment patches			
Series B-1 Convertible Preferred Stock	(M)	287,647	122,250
Starfire Systems, Inc. (4)(5) — Producing ceramic-forming polymers			
Common Stock	(M)	375,000	0
Series A-1 Convertible Preferred Stock	(M)	600,000	0
			0

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Unaffiliated Companies (2)(3) – 11.0% of net assets at value (cont.)				
Private Placement Portfolio (Illiquid) – 11.0% of net assets at value (cont.)				
TetraVitae Bioscience, Inc. (4)(5)(6)(9)(12) — Developing alternative fuels through biomass fermentation				
Series B Convertible Preferred Stock	(M)	118,804	$	125,000
Total Unaffiliated Private Placement Portfolio (cost: $24,208,281)			$	12,086,503
Total Investments in Unaffiliated Companies (cost: $24,208,281)			$	12,086,503

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(13) – 36.2% of net assets at value				
Private Placement Portfolio (Illiquid) – 36.2% of net assets at value				
Adesto Technologies Corporation (4)(5)(6) — Developing semiconductor-related products enabled at the nanoscale				
Series A Convertible Preferred Stock	(M)	6,547,619	$	1,100,000
Ancora Pharmaceuticals, Inc. (4)(5)(6) — Developing synthetic carbohydrates for pharmaceutical applications				
Series B Convertible Preferred Stock	(M)	1,663,808		1,200,000
Bridgelux, Inc. (4)(5)(14) — Manufacturing high-power light emitting diodes				
Series B Convertible Preferred Stock	(M)	1,861,504		1,396,128
Series C Convertible Preferred Stock	(M)	2,130,699		1,598,025
Series D Convertible Preferred Stock	(M)	666,667		500,000
Warrants at $0.7136 expiring 12/31/14	(I)	98,340		60,774
Warrants at $0.7136 expiring 12/31/14	(I)	65,560		40,516
				3,595,443
Cambrios Technologies Corporation (4)(5)(6) — Developing nanowire-enabled electronic materials for the display industry				
Series B Convertible Preferred Stock	(M)	1,294,025		647,013
Series C Convertible Preferred Stock	(M)	1,300,000		650,000
				1,297,013
CFX Battery, Inc. (4)(5)(6)(15) — Developing batteries using nanostructured materials				
Series A Convertible Preferred Stock	(M)	1,880,651		1,473,264

The accompanying notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)		Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(13) – 36.2% of net assets at value (cont.)					
Private Placement Portfolio (Illiquid) – 36.2% of net assets at value (cont.)					
Crystal IS, Inc. (4)(5) — Developing single-crystal aluminum nitride substrates for optoelectronic devices					
Series A Convertible Preferred Stock	(M)		391,571	$	76,357
Series A-1 Convertible Preferred Stock	(M)		1,300,376		253,574
Warrants at $0.78 expiring 05/05/13	(I)		15,231		1,584
Warrants at $0.78 expiring 05/12/13	(I)		2,350		244
Warrants at $0.78 expiring 08/08/13	(I)		4,396		479
					332,238
CSwitch Corporation (4)(5)(6)(16) — Developing next-generation, system-on-a-chip solutions for communications-based platforms					
Series A-1 Convertible Preferred Stock	(M)		6,863,118		0
Unsecured Convertible Bridge Note (including interest)	(M)	$	1,766,673		118,624
					118,624
D-Wave Systems, Inc. (4)(5)(6)(17) — Developing high-performance quantum computing systems					
Series B Convertible Preferred Stock	(M)		1,144,869		1,038,238
Series C Convertible Preferred Stock	(M)		450,450		408,496
Series D Convertible Preferred Stock	(M)		1,533,395		1,390,578
					2,837,312
Ensemble Discovery Corporation (4)(5)(6)(18) — Developing DNA Programmed Chemistry for the discovery of new classes of therapeutics and bioassays					
Series B Convertible Preferred Stock	(M)		1,449,275		1,000,000
Unsecured Convertible Bridge Note (including interest)	(M)	$	250,286		256,375
					1,256,375
Innovalight, Inc. (4)(5)(6) — Developing solar power products enabled by silicon-based nanomaterials					
Series B Convertible Preferred Stock	(M)		16,666,666		4,288,662
Series C Convertible Preferred Stock	(M)		5,810,577		1,495,176
					5,783,838

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)		Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(13) – 36.2% of net assets at value (cont.)					
Private Placement Portfolio (Illiquid) – 36.2% of net assets at value (cont.)					
Kovio, Inc. (4)(5)(6) — Developing semiconductor products using printed electronics and thin-film technologies					
Series C Convertible Preferred Stock	(M)		2,500,000	$	2,561,354
Series D Convertible Preferred Stock	(M)		800,000		819,633
Series E Convertible Preferred Stock	(M)		1,200,000		1,229,450
Warrants at $1.25 expiring 12/31/12	(I)		355,880		253,066
					4,863,503
Mersana Therapeutics, Inc. (4)(5)(6)(19) — Developing advanced polymers for drug delivery					
Series A Convertible Preferred Stock	(M)		68,451		68,451
Series B Convertible Preferred Stock	(M)		866,500		866,500
Warrants at $2.00 expiring 10/21/10	(I)		91,625		33,718
Unsecured Convertible Bridge Note (including interest)	(M)	$	200,000		208,110
					1,176,779
Metabolon, Inc. (4)(5) — Discovering biomarkers through the use of metabolomics					
Series B Convertible Preferred Stock	(M)		2,173,913		882,768
Series B-1 Convertible Preferred Stock	(M)		869,565		353,107
Warrants at $1.15 expiring 3/25/15	(I)		434,783		127,391
					1,363,266
NanoGram Corporation (4)(5) — Developing solar power products enabled by silicon-based nanomaterials					
Series I Convertible Preferred Stock	(M)		63,210		31,131
Series II Convertible Preferred Stock	(M)		1,250,904		616,070
Series III Convertible Preferred Stock	(M)		1,242,144		611,756
Series IV Convertible Preferred Stock	(M)		432,179		212,848
					1,471,805
Nanomix, Inc. (4)(5) — Producing nanoelectronic sensors that integrate carbon nanotube electronics with silicon microstructures					
Series C Convertible Preferred Stock	(M)		977,917		23,622
Series D Convertible Preferred Stock	(M)		6,802,397		6,428
					30,050

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)		Shares/ Principal		Value
Investments in Non-Controlled Affiliated Companies (2)(13) – 36.2% of net assets at value (cont.)					
Private Placement Portfolio (Illiquid) – 36.2% of net assets at value (cont.)					
Nextreme Thermal Solutions, Inc. (4)(5) — Developing thin-film thermoelectric devices for cooling and energy conversion					
Series A Convertible Preferred Stock	(M)		17,500	$	875,000
Series B Convertible Preferred Stock	(M)		4,870,244		1,327,629
					2,202,629
Questech Corporation (4)(5) — Manufacturing and marketing proprietary metal and stone decorative tiles					
Common Stock	(M)		655,454		128,266
Warrants at $1.50 expiring 11/19/09	(I)		5,000		20
					128,286
Siluria Technologies, Inc. (4)(5)(6) — Developing next-generation nanomaterials					
Series S-2 Convertible Preferred Stock	(M)		482,218		0
Unsecured Bridge Note (including interest)	(M)	$	42,542		42,731
					42,731
Solazyme, Inc. (4)(5)(6) — Developing algal biodiesel, industrial chemicals and special ingredients based on synthetic biology					
Series A Convertible Preferred Stock	(M)		988,204		2,489,088
Series B Convertible Preferred Stock	(M)		495,246		1,247,426
Series C Convertible Preferred Stock	(M)		651,309		1,640,517
					5,377,031
Xradia, Inc. (4)(5) — Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems					
Series D Convertible Preferred Stock	(M)		3,121,099		4,000,000
Total Non-Controlled Private Placement Portfolio (cost: $60,796,720)				$	39,650,187
Total Investments in Non-Controlled Affiliated Companies (cost: $60,796,720)				$	39,650,187

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)	Shares/ Principal		Value
Investments in Controlled Affiliated Companies (2)(20) – 4.8% of net assets at value				
Private Placement Portfolio (Illiquid) – 4.8% of net assets at value				
Laser Light Engines, Inc. (4)(5)(6)(9) — Manufacturing solid-state light sources for digital cinema and large-venue projection displays				
Series A Convertible Preferred Stock	(M)	7,499,062	$	2,000,000
SiOnyx, Inc. (4)(5)(6) — Developing silicon-based optoelectronic products enabled by its proprietary "Black Silicon"				
Series A Convertible Preferred Stock	(M)	233,499		101,765
Series A-1 Convertible Preferred Stock	(M)	2,966,667		1,292,948
Series A-2 Convertible Preferred Stock	(M)	4,207,537		1,833,750
				3,228,463
Total Controlled Private Placement Portfolio (cost: $6,085,000)			$	5,228,463
Total Investments in Controlled Affiliated Companies (cost: $6,085,000)			$	5,228,463
Total Private Placement Portfolio (cost: $91,090,001)			$	56,965,153

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

	Method of Valuation (1)		Shares/ Principal		Value
U.S. Government Securities (21) – 48.4% of net assets at value					
U.S. Treasury Bill — due date 01/29/09	(M)	$	52,985,000	$	52,983,940
Total Investments in U.S. Government Securities (cost: $52,956,288)				$	52,983,940
Total Investments (cost: $144,046,289)				$	109,949,093

The accompanying notes are an integral part of these consolidated financial statements.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

Notes to Consolidated Schedule of Investments

(1) See Footnote to Consolidated Schedule of Investments on page 101 for a description of the Valuation Procedures.

(2) Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own five percent or more, but less than 25 percent, of the voting shares of the portfolio company, or where we hold one or more seats on the portfolio company's Board of Directors but do not control the company. Investments in controlled affiliated companies consist of investments in which we own 25 percent or more of the voting shares of the portfolio company or otherwise control the company.

(3) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $24,208,281. The gross unrealized appreciation based on the tax cost for these securities is $1,732,194. The gross unrealized depreciation based on the tax cost for these securities is $13,853,972.

(4) Legal restrictions on sale of investment.

(5) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(6) These investments are development-stage companies. A development-stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations, or it has commenced such operations but has not realized significant revenue from them.

(7) With our purchase of Series E Convertible Preferred Stock of BioVex, we received a warrant to purchase a number of shares of common stock of BioVex as determined by dividing 624,999.99 by the price per share at which the common stock is offered and sold to the public in connection with the IPO. The ability to exercise this warrant is therefore contingent on BioVex completing successfully an IPO before the expiration date of the warrant on September 27, 2012. The exercise price of this warrant shall be 110 percent of the IPO price.

The accompanying notes are an integral part of this consolidated schedule.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

(8) With our investment in a convertible bridge note issued by BioVex Group, Inc., we received a warrant to purchase a number of shares of the class of stock sold in the next financing of BioVex equal to $60,000 divided by the price per share of the class of stock sold in the next financing of BioVex. The ability to exercise this warrant is, therefore, contingent on BioVex completing successfully a subsequent round of financing. This warrant shall expire and no longer be exercisable on November 13, 2015. The cost basis of this warrant is $200.

(9) Initial investment was made during 2008.

(10) Cobalt Technologies, Inc., does business as Cobalt Biofuels.

(11) Continuum Photonics, Inc., merged with Polatis, Ltd., to form Polatis, Inc.

(12) With our purchase of the Series B Convertible Preferred Stock of TetraVitae Bioscience, Inc., we received the right to purchase, at a price of $2.63038528 per share, a number of shares in the Series C financing equal to the number of shares of Series B Preferred Stock purchased. The ability to exercise this right is contingent on TetraVitae Bioscience completing successfully a subsequent round of financing.

(13) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $60,796,720. The gross unrealized appreciation based on the tax cost for these securities is $2,798,072. The gross unrealized depreciation based on the tax cost for these securities is $23,944,605.

(14) Bridgelux, Inc., was previously named eLite Optoelectronics, Inc.

(15) On February 28, 2008, Lifco, Inc., merged with CFX Battery, Inc. The surviving entity is CFX Battery, Inc.

(16) With our investments in secured convertible bridge notes issued by CSwitch, we received three warrants to purchase a number of shares of the class of stock sold in the next financing of CSwitch equal to $529,322, $985,835 and $249,750, respectively, the principal of the notes, divided by the lowest price per share of the class of stock sold in the next financing of CSwitch. The ability to exercise these warrants is, therefore, contingent on CSwitch completing successfully a subsequent round of financing. The warrants will expire five years from the date of the close of the next round of financing. The cost basis of these warrants is $529, $986 and $250, respectively.

The accompanying notes are an integral part of this consolidated schedule.

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2008

(17) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, Inc., through D-Wave USA, a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies."

(18) With our investment in a convertible bridge note issued by Ensemble Discovery, we received a warrant to purchase a number of shares of the class of stock sold in the next financing of Ensemble Discovery equal to $125,105.40 divided by the price per share of the class of stock sold in the next financing of Ensemble Discovery. The ability to exercise this warrant is, therefore, contingent on Ensemble Discovery completing successfully a subsequent round of financing. This warrant shall expire and no longer be exercisable on September 10, 2015. The cost basis of this warrant is $75.20.

(19) Mersana Therapeutics, Inc., was previously named Nanopharma Corp.

(20) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $6,085,000. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $856,537.

(21) The aggregate cost for federal income tax purposes of our U.S. government securities is $52,956,288. The gross unrealized appreciation on the tax cost for these securities is $27,652. The gross unrealized depreciation on the tax cost of these securities is $0.

The accompanying notes are an integral part of this consolidated schedule.

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HARRIS & HARRIS GROUP, INC.
FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

VALUATION PROCEDURES

I. Determination of Net Asset Value

The 1940 Act requires periodic valuation of each investment in the portfolio of the Company to determine its net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

The Board of Directors is responsible for (1) determining overall valuation guidelines and (2) ensuring that the investments of the Company are valued within the prescribed guidelines.

The Valuation Committee, comprised of all of the independent Board members, is responsible for determining the valuation of the Company’s assets within the guidelines established by the Board of Directors. The Valuation Committee receives information and recommendations from management.

The values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized when that investment is sold, as such amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated or become readily marketable.

II. Approaches to Determining Fair Value

Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures," ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In effect, ASC 820 applies fair value terminology to all valuations whereas the 1940 Act applies market value terminology to readily marketable assets and fair value terminology to other assets.

The main approaches to measuring fair value utilized are the market approach and the income approach.

- Market Approach: The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. For example, the market approach often uses market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range each appropriate multiple falls requires judgment considering factors specific to the measurement (qualitative and quantitative).

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- Income Approach: The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques; and the multi-period excess earnings method, which is used to measure the fair value of certain assets.

ASC Topic 820 classifies the inputs used to measure fair value by these approaches into the following hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2: Quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- Level 3: Unobservable inputs for the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement and are not necessarily an indication of risks associated with the investment.

III. Investment Categories

The Company's investments can be classified into five broad categories for valuation purposes:

- Equity-related securities;
- Long-term fixed-income securities;
- Short-term fixed-income securities;
- Investments in intellectual property, patents, research and development in technology or product development; and
- All other securities.

The Company applies the methods for determining fair value discussed above to the valuation of investments in each of these five broad categories as follows:

A. EQUITY-RELATED SECURITIES

Equity-related securities, including warrants, are fair valued using the market or income approaches. The following factors may be considered when the market approach is used to fair value these types of securities:

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- § Readily available public market quotations;
- § The cost of the Company’s investment;
- § Transactions in a company's securities or unconditional firm offers by responsible parties as a factor in determining valuation;
- § The financial condition and operating results of the company;
- § The company's progress towards milestones.
- § The long-term potential of the business and technology of the company;
- § The values of similar securities issued by companies in similar businesses;
- § Multiples to revenue, net income or EBITDA that similar securities issued by companies in similar businesses receive;
- § The proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under applicable securities laws; and
- § The rights and preferences of the class of securities we own as compared to other classes of securities the portfolio company has issued.

When the income approach is used to value warrants, the Company uses the Black-Scholes-Merton formula.

B. LONG-TERM FIXED-INCOME SECURITIES

1. Readily Marketable: Long-term fixed-income securities for which market quotations are readily available are valued using the most recent bid quotations when available

2. Not Readily Marketable: Long-term fixed-income securities for which market quotations are not readily available are fair valued using the market approach. The factors that may be considered when valuing these types of securities by the market approach include:

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- Credit quality;
- Interest rate analysis;
- Quotations from broker-dealers;
- Prices from independent pricing services that the Board believes are reasonably reliable; and
- Reasonable price discovery procedures and data from other sources.

C. SHORT-TERM FIXED-INCOME SECURITIES

Short-Term Fixed-Income Securities are valued using the market approach in the same manner as long-term fixed-income securities until the remaining maturity is 60 days or less, after which time such securities may be valued at amortized cost if there is no concern over payment at maturity.

D. INVESTMENTS IN INTELLECTUAL PROPERTY, PATENTS, RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are fair valued using the market approach. The Company may consider factors specific to these types of investments when using the market approach including:

- The cost of the Company’s investment;
- Investments in the same or substantially similar intellectual property or patents or research and development in technology or product development or offers by responsible third parties;
- The results of research and development;
- Product development and milestone progress;
- Commercial prospects;
- Term of patent;
- Projected markets; and
- Other subjective factors.

E. ALL OTHER SECURITIES

All Other Securities are reported at fair value as determined in good faith by the Valuation Committee using the approaches for determining valuation as described above.

For all other securities, the reported values shall reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic approaches of valuation discussed in Section III. They do not necessarily represent an amount of money that would be realized if we had to sell such assets in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we"), is a venture capital company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). We operate as an internally managed company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

Harris & Harris Enterprises, Inc.SM, is a 100 percent wholly owned subsidiary of the Company. Harris & Harris Enterprises, Inc., is a partner in Harris Partners I, L.P. SM, and is taxed under Subchapter C of the Code (a "C Corporation"). Harris Partners I, L.P, is a limited partnership and, from time to time, may be used to hold certain interests in portfolio companies. The partners of Harris Partners I, L.P., are Harris & Harris Enterprises, Inc., (sole general partner) and Harris & Harris Group, Inc. (sole limited partner). Harris & Harris Enterprises, Inc., pays taxes on any non-passive investment income generated by Harris Partners I, L.P. For the year ended December 31, 2009, there was no non-passive investment income generated by Harris Partners I, L.P. The Company consolidates the results of its subsidiaries for financial reporting purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates, and the differences could be material. The most significant estimates relate to the fair valuations of our investments.

Cash and Cash Equivalents. Cash and cash equivalents includes demand deposits. Cash and cash equivalents are carried at cost which approximates value.

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the SEC and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments.") At December 31, 2009, our financial statements include private venture capital investments and one publicly traded venture capital investment valued at $77,797,086 and $226,395, respectively. The fair values of our private venture capital investments were determined in good faith by, or under the direction, of the Board of Directors. Upon sale of investments, the values that are ultimately realized may be different from what is presently estimated. The difference could be material.

Foreign Currency Translation. The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. For the twelve months ended December 31, 2009, included in the net decrease in unrealized depreciation on investments was a $469,809 gain resulting from foreign currency translation.

Securities Transactions. Securities transactions are accounted for on the date the transaction for the purchase or sale of the securities is entered into by the Company (i.e., trade date).

Interest Income Recognition. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. When securities are determined to be non-income producing, the Company ceases accruing interest and writes off any previously accrued interest. During the twelve months ended December 31, 2009, the Company earned $135,536 in interest on U.S. government securities and interest-bearing accounts. During the twelve months ended December 31, 2009, the Company recorded, net of write-offs, $79,224 of bridge note interest.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments. Realized gain or loss is recognized when an investment is disposed of and is computed as the difference between the Company's cost basis in the investment at the disposition date and the net proceeds received from such disposition. Realized gains and losses on investment transactions are determined by specific identification. Unrealized appreciation or depreciation is computed as the difference between the fair value of the investment and the cost basis of such investment.

Stock-Based Compensation. The Company has a stock-based employee compensation plan. The Company accounts for the Harris & Harris Group, Inc. 2006 Equity Incentive Plan (the "Stock Plan") by determining the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, and records these amounts as an expense in the Consolidated Statement of Operations over the vesting period with a corresponding increase to our additional paid-in capital. For the years ended December 31, 2009, 2008 and 2007, the increase to our operating expenses was offset by the increase to our additional paid-in capital, resulting in no net impact to our net asset value. Additionally, the Company does not record the tax benefits associated with the expensing of stock options, because the Company currently intends to qualify as a RIC under Subchapter M of the Code. The amount of non-cash, stock-based compensation expense recognized in the Consolidated Statement of Operations is based on the fair value of the awards the Company expects to vest, recognized over the vesting period on a straight-line basis for each award, and adjusted for actual options vested and pre-vesting forfeitures. The forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate and is accounted for in the current period and prospectively. See "Note 5. Stock-Based Compensation" for further discussion.

Income Taxes. As we intend to qualify as a RIC under Subchapter M of the Internal Revenue Code, the Company does not provide for income taxes. The Company recognizes interest and penalties in income tax expense.

We pay federal, state and local income taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is a C corporation. See "Note 8. Income Taxes."

Restricted Funds. The Company maintained a rabbi trust for the purposes of accumulating funds to satisfy the obligations incurred by us for the Supplemental Executive Retirement Plan ("SERP") under the employment agreement with Charles E. Harris, the former Chairman and Chief Executive Officer of the Company. The final payment from this rabbi trust was made on July 31, 2009, after which the rabbi trust was closed. At December 31, 2009, we held $2,000 in restricted funds as a security deposit for a sublessor.

Property and Equipment. Property and equipment are included in "Other Assets" and are carried at $69,528 and $119,180 at December 31, 2009, and December 31, 2008, respectively, representing cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the premises and equipment. We estimate the useful lives to be five to ten years for furniture and fixtures, three years for computer equipment, and five to seven years for leasehold improvements.

Post Retirement Plan Liabilities. Unrecognized actuarial gains and losses are recognized as net periodic benefit cost pursuant to the Company's historical accounting policy for amortizing such amounts. Actuarial gains and losses that arise that are not recognized as net periodic benefit cost in the same periods will be recognized as a component of net assets.

Concentration of Credit Risk. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Recent Accounting Pronouncements. In April of 2009, the FASB issued guidance for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. It provides additional guidance for fair value measures in determining if the market for an asset or liability is inactive and, accordingly, if quoted market prices may not be indicative of fair value. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Effective July 1, 2009, the FASB’s Accounting Standards Codification ("ASC" or "Codification") became the single official source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Company’s consolidated financial statements.

NOTE 3. BUSINESS RISKS AND UNCERTAINTIES

We have invested a substantial portion of our assets in privately held companies, the securities of which are inherently illiquid. We also seek to invest in small publicly traded companies that we believe have exceptional growth potential. Although these companies are publicly traded, their stock may not trade at high volumes and prices can be volatile, which may restrict our ability to sell our positions. These privately held and publicly traded businesses tend to lack management depth, to have limited or no history of operations and to not have attained profitability. Because of the speculative nature and the lack of a public market for these investments, there is greater risk of loss than is the case with traditional investment securities.

Because there is typically no public market for our interests in the small privately held companies in which we invest, the valuation of the equity and bridge note interests in that portion of our portfolio is determined in good faith by our Valuation Committee, comprised of all of the independent members of our Board of Directors, in accordance with our Valuation Procedures and is subject to significant estimates and judgments. In the absence of a readily ascertainable market value, the determined value of our portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Any changes in valuation are recorded in our Consolidated Statement of Operations as "Net decrease (increase) in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be volatile.

NOTE 4. INVESTMENTS

At December 31, 2009, our financial assets were categorized as follows in the fair value hierarchy:

			Fair Value Measurement at Reporting Date Using:		
Description	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Securities	$ 55,947,581	$ 52,136,751	$ 3,810,830	$ 0
Private Portfolio Companies:				
Preferred Stock	$ 73,134,661	$ 0	$ 0	$ 73,134,661
Bridge Notes	$ 2,718,225	$ 0	$ 0	$ 2,718,225
Common Stock	$ 1,164,599	$ 0	$ 0	$ 1,164,599
Warrants	$ 779,601	$ 0	$ 0	$ 779,601
	$ 77,797,086			
Publicly Traded Portfolio Companies	$ 226,395	$ 226,395	$ 0	$ 0
Total	$ 133,971,062	$ 52,363,146	$ 3,810,830	$ 77,797,086

The following chart shows the components of change in the financial assets categorized as Level 3, for the twelve months ended December 31, 2009.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Portfolio Companies
Beginning Balance, January 1, 2009	$56,965,153
Total realized losses included in change in net assets	(11,106,005)
Total unrealized gains included in change in net assets	19,830,852
Investments in private placements and interest on bridge notes	12,212,789
Disposals and write-offs of bridge note interest	(105,703)
Ending Balance, December 31, 2009	$77,797,086
The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains or	$8,786,290

losses relating to assets still held at the reporting date

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NOTE 5. STOCK-BASED COMPENSATION

On March 23, 2006, the Board of Directors of the Company voted to terminate the Employee Profit-Sharing Plan and to establish the Harris & Harris Group, Inc. 2006 Equity Incentive Plan (the "Stock Plan"), subject to shareholder approval. This proposal was approved at the May 4, 2006, Annual Meeting of Shareholders. The Stock Plan provides for the grant of equity-based awards of stock options to our officers, employees and directors (subject to receipt of an exemptive order described below) and restricted stock (subject to receipt of an exemptive order described below) to our officers and employees who are selected by our Compensation Committee for participation in the plan and subject to compliance with the 1940 Act.

On July 11, 2006, the Company filed an application with the SEC regarding certain provisions of the Stock Plan, and the Company has responded to comments from the SEC on the application. In the event that the SEC provides the exemptive relief requested by the application, and we receive stockholder approval for such provisions, the Compensation Committee may, in the future, authorize awards of stock options under an amended Stock Plan to non-employee directors of the Company and authorize grants of restricted stock to officers and employees.

A maximum of 20 percent of our total shares of our common stock issued and outstanding are available for awards under the Stock Plan. Under the Stock Plan, no more than 25 percent of the shares of stock reserved for the grant of the awards under the Stock Plan may be restricted stock awards at any time during the term of the Stock Plan. If any shares of restricted stock are awarded, such awards will reduce on a percentage basis the total number of shares of stock for which options may be awarded. If the Company does not receive exemptive relief from the SEC to issue restricted stock, all shares granted under the Stock Plan must be subject to stock options. No more than 1,000,000 shares of our common stock may be made subject to awards under the Stock Plan to any individual in any year.

During the years ended December 31, 2009, 2008, and 2007, the Compensation Committee of the Board of Directors of the Company approved individual non-qualified stock option ("NQSO") awards for certain officers and employees of the Company. The terms and conditions of the stock options granted were determined by the Compensation Committee and set forth in award agreements between the Company and each award recipient.

The option grants during the years ended December 31, 2009, 2008, and 2007 were as follows:

Grant Date	No. of Options Granted	Option Type	Vesting Period	Exercise Price1
November 11, 2009	200,000	NQSO	11/10 to 11/12	$4.49
May 13, 2009	200,000	NQSO	11/09 to 05/13	$4.46
March 18, 2009	329,999	NQSO	03/10 to 03/13	$3.75
August 13, 2008	1,163,724	NQSO	12/08 to 08/12	$6.92
March 19, 2008	348,032	NQSO	03/09 to 03/12	$6.18
June 27, 2007	1,700,609	NQSO	12/07 to 06/14	$11.11

1 The exercise price for the November 11, 2009, May 13, 2009, and March 18, 2009, grants was the closing price of our shares of common stock as quoted on the Nasdaq Global Market on the date of grant. The exercise price for the August 13, 2008, March 19, 2008, and June 27, 2007, grants was the volume weighted average price as quoted on the Nasdaq Global Market on the date of the grant.

The 2009 option awards may become fully vested and exercisable prior to the date or dates in the vesting schedule if the Board of Directors accepts an offer for the sale of all or substantially all of the Company's assets. Upon exercise, the shares would be issued from our previously authorized but unissued shares. In addition, with respect to the grant on March 18, 2009, the awards were to become fully vested and exercisable prior to the date or dates in the vesting schedule if (1) the market price of the shares of our stock reached $6.00 per share at the close of business on three consecutive trading days on the Nasdaq Global Market or (2) the Board of Directors accepted an offer for the sale of substantially all of the Company's assets.

At the close of business on July 28, 2009, the price of our stock reached $6.00 for the third consecutive trading day on the Nasdaq Global Market. Accordingly, the vesting schedule accelerated and all 329,999 options became immediately vested and exercisable. The remaining compensation cost of $364,839 was recognized in the quarter ended September 30, 2009. This expense has no impact on the net asset value as the non-cash compensation cost is offset by an increase to our additional paid-in capital.

The fair value of the options was determined on the date of grant using the Black-Scholes-Merton or lattice models based on the following factors.

An option's expected term is the estimated period between the grant date and the exercise date of the option. As the expected term period increases, the fair value of the option and the non-cash compensation cost will also increase. The expected term assumption is generally calculated using historical stock option exercise data. Management has performed an analysis and has determined that historical exercise data does not provide a sufficient basis to calculate the expected term of the option. In cases where companies do not have historical data and where the options meet certain criteria, SEC Staff Accounting Bulletin 107 ("SAB 107") provides the use of a simplified expected term calculation. Accordingly, the Company calculated the expected term used in the Black-Scholes-Merton model using the SAB 107 simplified method.

Expected volatility is the measure of how the stock's price is expected to fluctuate over a period of time. An increase in the expected volatility assumption yields a higher fair value of the stock option. The expected volatility factor for the Black-Scholes-Merton and lattice models were based on the historical fluctuations in the Company’s stock price over a period commensurate with the expected term and contractual term, respectively, of the options, adjusted for stock splits and dividends.

The expected exercise factor in the lattice model is an estimate of when options will be exercised when they are in the money. An expected exercise factor of two assumes that options will be exercised when they reach two times their strike price.

The expected dividend yield assumption is traditionally calculated based on a company's historical dividend yield. An increase to the expected dividend yield results in a decrease in the fair value of options and resulting compensation cost. Although the Company has declared deemed dividends in previous years, most recently in 2005, the amounts and timing of any future dividends cannot be reasonably estimated. Therefore, for purposes of calculating fair value, the Company has assumed an expected dividend yield of zero percent.

The risk-free interest rate assumption used in the Black-Scholes-Merton model is based on the annual yield on the measurement date of a zero-coupon U.S. Treasury bond the maturity of which equals the option's expected term. The lattice model uses interest rates commensurate with the contractual term of the options. Higher assumed interest rates yield higher fair values.

The stock options granted on June 27, 2007, were awarded in four different grant types, each with different contractual terms. The assumptions used in the calculation of fair value of the stock options granted on June 27, 2007, using the Black-Scholes-Merton model for each contract term were as follows:

Type of Award	Term	Number of Options Granted	Expected Term in Yrs	Expected Volatility Factor	Expected Dividend Yield	Risk-free Interest Rates	Fair Value Per Share
Non-qualified stock options	1.5 Years	380,000	1	42.6%	0%	4.93%	$2.11
Non-qualified stock options	2.5 Years	600,540	2	40.1%	0%	4.91%	$2.92
Non-qualified stock options	3.5 Years	338,403	3	44.7%	0%	4.93%	$3.94
Non-qualified stock options	9 Years	381,666	Ranging From 4.75-6.28	Ranging From 57.8% to 59.9%	0%	Ranging From 4.97% to 5.01%	Ranging From $5.92 to $6.85
Total		1,700,609					

The assumptions used in the calculation of fair value of the stock options granted during 2008 using the Black-Scholes-Merton model for the contract term were as follows:

Type of Award	Term	Number of Options Granted	Expected Term in Yrs	Expected Volatility Factor	Expected Dividend Yield	Risk-free Interest Rates	Weighted Average Fair Value Per Share
Non-qualified stock options	9.78 Years	348,032	6.14	57.1%	0%	2.62%	$3.45
Non-qualified stock options	9.38 Years	1,163,724	Ranging From 4.88 to 5.94	Ranging From 50.6% to 55.1%	0%	Ranging From 3.24% to 3.40%	Ranging From $3.25 to $3.79
Total		1,511,756					

The assumptions used in the calculation of fair value using the Black-Scholes model for each contract term for grants in 2009 were as follows:

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Type of Award	Contractual Term	Number of Options Granted	Expected Term in Yrs	Expected Volatility Factor	Expected Dividend Yield	Risk-free Interest Rate	Fair Value Per Share
Non-qualified stock options	2 Years	394,570	Ranging from 1.375 to 1.5	Ranging from 71.7% to 105.5%	0%	Ranging from 0.52% to 0.71%	Ranging from $1.29 to $2.08
Non-qualified stock options	5 Years	200,000	3.5	64.6%	0%	1.64%	$2.11
Non-qualified stock options	10 Years	51,200	6.25	60.6%	0%	2.35%	$2.60
Total		645,770					

For the March 2009 grant of 10-year stock options, we used a Lattice model to calculate fair value. The assumptions used in the lattice model for the March 2009 grant of 10-year stock options were as follows:

Type of Award	Contractual Term	Number of Options Granted	Suboptimal Factor	Expected Volatility Factor	Expected Dividend Yield	Risk-free Interest Rate	Fair Value Per Share
Non-qualified stock options	10 Years	84,229	2	73.1%	0%	2.59%	$1.97

For the years ended December 31, 2009, December 31, 2008, and December 31, 2007, the Company recognized $3,089,520, $5,965,769 and $8,050,807 of compensation expense in the Consolidated Statement of Operations, respectively. As of December 31, 2009, there was approximately $5,835,486 of unrecognized compensation cost related to unvested stock option awards. This cost is expected to be recognized over a weighted-average period of approximately two years.

For the year ended December 31, 2009, a total of 112,520 options were exercised for total proceeds to the Company of $421,950. For the year ended December 31, 2008, no stock options were exercised. For the year ended December 31, 2007, a total of 999,556 options were exercised for total proceeds to the Company of $10,105,511.

The grant date fair value of options vested during the years ended December 31, 2009, December 31, 2008, and December 31, 2007, was $3,821,871, $6,779,996 and $6,851,874, respectively.

For the years ended December 31, 2009, December 31, 2008, and December 31, 2007, the calculation of the net decrease in net assets resulting from operations per share excludes the stock options because such options were anti-dilutive. The options may be dilutive in future periods in which there is a net increase in net assets resulting from operations, in the event that there is a significant increase in the average stock price in the stock market or significant decreases in the amount of unrecognized compensation cost.

A summary of the changes in outstanding stock options for the year ended December 31, 2009, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Options Outstanding at January 1, 2009	4,638,213	$ 9.30	$ 4.83	6.03	$ 0
Granted	729,999	$ 4.15	$ 1.85	3.74	
Exercised	(112,520)	$ 3.75	$ 1.32		
Forfeited or Expired	(1,071,189)	$ 10.66	$ 3.32		
Options Outstanding at December 31, 2009	4,184,503	$ 8.20	$ 4.79	6.24	$ 216,333
Options Exercisable at December 31, 2009	2,442,349	$ 8.94	$ 5.13	5.54	$ 186,517
Options Exercisable and Expected to be Exercisable at December 31, 2009	4,125,952	$ 8.17	$ 4.75	6.24	$ 216,333

The aggregate intrinsic value in the table above with respect to options outstanding, exercisable and expected to be exercisable, is calculated as the difference between the Company's closing stock price of $4.57 on the last trading day of 2009 and the exercise price, multiplied by the number of in-the-money options. This calculation represents the total pre-tax intrinsic value that would have been received by the option holders had all options been fully vested and all option holders exercised their awards on December 31, 2009.

At December 31, 2009, there were 1,742,155 unvested options with a weighted average grant date fair value of $4.31. At December 31, 2008, there were 2,170,626 unvested options with a weighted average grant date fair value of $4.60. At December 31, 2007, there were 2,250,619 unvested options with a weighted average grant date fair value of $5.02

During the year ended December 31, 2009, a total of 1,158,471 options vested having a weighted average grant date fair value of $3.30

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For the twelve months ended December 31, 2009, the aggregate intrinsic value of the 112,520 options exercised was $295,671. No options were exercised during 2008. For the twelve months ended December 31, 2007, the aggregate intrinsic value of the 999,556 options exercised was $1,700,552.

Unless earlier terminated by our Board of Directors, the Stock Plan will expire on May 4, 2016. The expiration of the Stock Plan will not by itself adversely affect the rights of plan participants under awards that are outstanding at the time the Stock Plan expires. Our Board of Directors may terminate, modify or suspend the plan at any time, provided that no modification of the plan will be effective unless and until any required shareholder approval has been obtained. The Compensation Committee may terminate, modify or amend any outstanding award under the Stock Plan at any time, provided that in such event, the award holder may exercise any vested options prior to such termination of the Stock Plan or award.

NOTE 6. DISTRIBUTABLE EARNINGS

As of December 31, 2009, December 31, 2008, and December 31, 2007, there were no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is primarily nondeductible deferred compensation and net operating losses.

The Company did not declare dividends for the years ended December 31, 2009, 2008 or 2007.

NOTE 7. EMPLOYEE BENEFITS

SERP

The Company maintained a rabbi trust for the purposes of accumulating funds to satisfy the obligations incurred by us for the Supplemental Executive Retirement Plan ("SERP") under the employment agreement with Charles E. Harris, the former Chairman and Chief Executive Officer of the Company. The final payment from this rabbi trust was made on July 31, 2009, after which the rabbi trust was closed.

401(k) Plan

We adopted a 401(k) Plan covering substantially all of our employees. Matching contributions to the plan are at the discretion of the Compensation Committee. For the year ended December 31, 2009, the Compensation Committee approved a 100 percent match which amounted to $181,200. The 401(k) Company match for the years ended December 31, 2008, and 2007 was $180,500 and $176,873, respectively.

Medical Benefit Retirement Plan

On June 30, 1994, we adopted a plan to provide medical and dental insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with us and have attained 50 years of age or have attained 45 years of age and have 15 years of service with us. On February 10, 1997, we amended this plan to include employees who have seven full years of service and have attained 58 years of age. On November 3, 2005, we amended this plan to reverse the 1997 amendment for future retirees and to remove dependents other than spouses from the plan. The coverage is secondary to any government or subsequent employer provided health insurance plans. The annual premium cost to us with respect to the entitled retiree shall not exceed $12,000, subject to an index for inflation. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Act, which went into effect January 1, 2006, provides a 28 percent subsidy for post-65 prescription drug benefits. Our liability assumes our plan is actuarially equivalent under the Act.

The stock options of retirees who qualify for the Medical Benefit Retirement Plan will remain exercisable (to the extent exercisable at the time of the optionee's termination) post retirement until the expiration of their term, if such retiree executes a post-termination non-solicitation agreement in a form reasonably acceptable to the Company.

The plan is unfunded and has no assets. The following disclosures about changes in the benefit obligation under our plan to provide medical and dental insurance for retirees are as of the measurement date of December 31:

	2009	2008
Accumulated Postretirement Benefit Obligation at Beginning of Year	$ 853,679	$ 628,745
Service Cost	113,450	86,497
Interest Cost	47,629	39,972
Actuarial (Gain)/Loss	7,285	109,312
Benefits Paid	(28,402)	(10,847)
Accumulated Postretirement Benefit Obligation at End of Year	$ 993,641	$ 853,679

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In accounting for the plan, the assumption made for the discount rate was 5.72 percent and 5.71 percent for the years ended December 31, 2009, and 2008, respectively. The assumed health care cost trend rates in 2009 were nine percent grading to six percent over three years for medical and five percent per year for dental. The assumed health care cost trend rates in 2008 were nine percent grading to six percent over three years for medical and five percent per year for dental. The effect on disclosure information of a one percentage point change in the assumed health care cost trend rate for each future year is shown below.

	1% Decrease in Rates	Assumed Rates	1% Increase in Rates
Aggregated Service and Interest Cost	$ 123,514	$ 161,079	$ 212,783
Accumulated Postretirement Benefit Obligation	$ 816,630	$ 993,641	$ 1,225,828

The net periodic postretirement benefit cost for the year is determined as the sum of service cost for the year, interest on the accumulated postretirement benefit obligation and amortization of the transition obligation (asset) less previously accrued expenses over the average remaining service period of employees expected to receive plan benefits. The following is the net periodic postretirement benefit cost for the years ended December 31, 2009, 2008, and 2007:

	2009	2008	2007
Service Cost	$ 113,450	$ 86,497	$ 102,676
Interest Cost on Accumulated Postretirement Benefit Obligation	47,629	39,972	33,935
Amortization of Transition Obligation	0	0	0
Amortization of Net (Gain)/Loss	(4,103)	(11,215)	(6,234)
Net Periodic Post Retirement Benefit Cost	$ 156,976	$ 115,254	$ 130,377

The Company estimates the following benefits to be paid in each of the following years:

2010	$ 20,120
2011	$ 22,025
2012	$ 23,985
2013	$ 25,969
2014	$ 27,951
2015 through 2019	$ 181,669

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For the year ended December 31, 2009, net unrecognized actuarial losses, which resulted from the decrease in the discount rate referred to above, decreased by $11,388, which represents $7,285 of actuarial losses arising during the year, net of a $4,103 reclassification adjustment which increased the net periodic benefit cost for the year.

For the year ended December 31, 2008, net unrecognized actuarial losses, which resulted from the decrease in the discount rate referred to above, decreased by $120,527, which represents $109,312 of actuarial losses arising during the year, net of an $11,215 reclassification adjustment which increased the net periodic benefit cost for the year.

For the year ended December 31, 2007, net unrecognized actuarial gains, which resulted from the increase in the discount rate, increased by $190,014, which represents $196,248 of actuarial gains arising during the year, net of a $6,234 reclassification adjustment which reduced the net periodic benefit cost for the year.

Executive Mandatory Retirement Benefit Plan

On March 20, 2003, in order to begin planning for eventual management succession, the Board of Directors voted to establish the Executive Mandatory Retirement Benefit Plan for individuals who are employed by us in a bona fide executive or high policy-making position. The plan was amended and restated effective January 1, 2005, to comply with certain provisions of the Internal Revenue Code. There are currently four individuals that qualify under the plan: Douglas W. Jamison, the Chairman and Chief Executive Officer, Daniel B. Wolfe, the President, Charles E. Harris, the former Chairman and Chief Executive Officer, and Mel P. Melsheimer, the former President. Under this plan, mandatory retirement takes place effective December 31 of the year in which the eligible individuals attain the age of 65. On an annual basis beginning in the year in which the designated individual attains the age of 65, a committee of the Board consisting of non-interested directors may determine for our benefit to postpone the mandatory retirement date for that individual for one additional year.

Under applicable law prohibiting discrimination in employment on the basis of age, we can impose a mandatory retirement age of 65 for our executives or employees in high policy-making positions only if each employee subject to the mandatory retirement age is entitled to an immediate retirement benefit at retirement age of at least $44,000 per year. The benefits payable at retirement to Mr. Harris and Mr. Melsheimer under our existing 401(k) plan do not equal this threshold. The plan was established to provide the difference between the benefit required under the age discrimination laws and that provided under our existing plans. For individuals retiring after January 1, 2009, the benefit under the plan is paid to the qualifying individual in the form of a lump sum within 60 days after the participant's separation from service.

At December 31, 2009, and 2008, we had accrued $222,958 and $380,737, respectively, for benefits under this plan. At December 31, 2009, $222,958 was accrued for Mr. Melsheimer and $0 was accrued for Mr. Harris. Currently, there is no accrual for Mr. Jamison or Mr. Wolfe. This benefit will be unfunded, and the expense as it relates to Mr. Melsheimer and Mr. Harris was amortized over the fiscal periods through the years ended December 31, 2004, and 2009, respectively. On December 31, 2004, Mr. Melsheimer retired pursuant to the Executive Mandatory Retirement Benefit Plan. His annual benefit under the plan is $22,915. On December 31, 2008, Mr. Harris retired pursuant to the Executive Mandatory Retirement Benefit Plan. Mr. Harris's mandatory benefit was $151,443 and was paid as a lump sum on July 10, 2009.

NOTE 8. INCOME TAXES

We filed for the 1999 tax year to elect treatment as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for the years 2000 through 2008. However, there can be no assurance that we will qualify as a RIC for 2009 or subsequent years.

In the case of a RIC which furnishes capital to development corporations, there is an exception to the rule relating to the diversification of investments required to qualify for RIC treatment. This exception is available only to registered investment companies that the SEC determines to be principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available ("SEC Certification"). We have received SEC Certification since 1999, including for 2008, but it is possible that we may not receive SEC Certification in future years.

In addition, under certain circumstances, even if we qualified for Subchapter M treatment for a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, we must, among other things, distribute at least 90 percent of our investment company taxable income and may either distribute or retain our realized net capital gains on investments.

Provided that a proper election is made, a corporation taxable under Subchapter C of the Code or a C Corporation that elects to qualify as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its qualification as a RIC (the "Inclusion Period") from sales of assets that were held by the corporation on the effective date of the RIC election ("C Corporation Assets"), to the extent of any gain built into the assets on such date ("Built-In Gain"). If the corporation fails to make a proper election, it is taxable on its Built-In Gain as of the effective date of its RIC election. We had Built-In Gains at the time of our qualification as a RIC and made the election to be taxed on any Built-In Gain realized during the Inclusion Period.

For federal tax purposes, the Company’s 2006 through 2009 tax years remain open for examination by the tax authorities under the normal three year statute of limitations. Generally, for state tax purposes, the Company’s 2005 through 2009 tax years remain open for examination by the tax authorities under a four year statute of limitations.

During 2009, the Company recorded a consolidated benefit of $753 in federal, state and local income taxes. At December 31, 2009, we had $0 accrued for federal, state and local taxes payable by the Company.

We pay federal, state and local taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is taxed as a C Corporation. For the years ended December 31, 2009, 2008, and 2007, our income tax (benefit) expense for Harris & Harris Enterprises, Inc., was $(2,960), $16,528 and $3,231, respectively.

Tax (benefit) expense included in the Consolidated Statement of Operations consists of the following:

	2009	2008	2007
Current	$ (753)	$ 34,121	$ 87,975
Total income tax (benefit) expense	$ (753)	$ 34,121	$ 87,975

For the years ended December 31, 2009, 2008, and 2007, we paid $0, $706 and $74,454, respectively, in interest and penalties. At December 31, 2009, we had capital loss carryforwards of $17,994,765, of which $5,386,947 expire in 2016 and $12,607,818 expire in 2017. As of December 31, 2009, we also had post-October capital loss deferrals of $6,415,550.

Continued qualification as a RIC requires us to satisfy certain investment asset diversification requirements in future years. Our ability to satisfy those requirements may not be controllable by us. There can be no assurance that we will qualify as a RIC in subsequent years.

NOTE 9. COMMITMENTS & CONTINGENCIES

On April 17, 2003, we signed a seven-year sublease for office space at 111 West 57th Street in New York City. On December 17, 2004, we signed a sublease for additional office space at this location. The subleases expire on April 29, 2010. Total rent expense for our office space in New York City was $191,399 in 2009, $186,698 in 2008 and $178,167 in 2007. Future minimum sublease payments for the remaining term are $65,969.

On July 1, 2008, we signed a five-year lease for office space at 420 Florence Street, Suite 200, Palo Alto, California, commencing on August 1, 2008, and expiring on August 31, 2013. Total rent expense for our office space in Palo Alto was $125,205 in 2009 and $51,525 in 2008. Future minimum lease payments in each of the following years are: 2010 - $128,962; 2011 - $132,831; 2012 - $136,816 and 2013 - $93,135.

On September 24, 2009, we entered into a lease agreement for approximately 6,900 square feet of office space located at 1450 Broadway, New York, New York. The lease commenced on January 21, 2010, with these offices replacing our corporate headquarters previously located at 111 West 57th Street in New York City. The base rent is $36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. The lease expires on December 31, 2019. Future minimum lease payments in each of the following years are: 2010 - $151,762; 2011 - $190,957; 2012 - $239,227; 2013 - $245,208; 2014 - $251,338; and thereafter for the remaining term – an aggregate of $1,477,248.

We have one option to extend the lease term for a five-year period, provided that we are not in default under the lease. Annual rent during the renewal period will equal 95 percent of the fair market value of the leased premises, as determined in accordance with the lease. Upon an event of default, the lease provides that the landlord may terminate the lease and require us to pay all rent that would have been payable during the remainder of the lease or until the date the landlord re-enters the premises.

In the ordinary course of business, we indemnify our officers and directors, subject to certain regulatory limitations, for loss or liability related to their service on behalf of the Company, including serving on the Boards of Directors or as officers of portfolio companies. At December 31, 2009, and 2008, we believe our estimated exposure is minimal, and accordingly we have no liability recorded.

NOTE 10. CAPITAL TRANSACTIONS

On June 25, 2007, we completed the sale of 1,300,000 shares of our common stock for gross proceeds of $14,027,000; net proceeds of this offering, after placement agent fees and offering costs of $1,033,832, were $12,993,168.

On June 20, 2008, we completed the sale of 2,545,000 shares of our common stock for gross proceeds of $15,651,750; net proceeds of this offering, after placement agent fees and offering costs of $1,268,253, were $14,383,497.

On October 9, 2009, we closed a public follow-on offering of 4,887,500 shares of our common stock at a price of $4.75 per share to the public. The net proceeds of this offering, after deducting underwriting discounts and offering costs of $1,951,485, were $21,264,140.

NOTE 11. CHANGE IN NET ASSETS PER SHARE

The following table sets forth the computation of basic and diluted per share net increases in net assets resulting from operations for the twelve months ended December 31, 2009, 2008, and 2007.

		2009		2008		2007
Numerator for decrease in net assets per share	$	(148,465)	$	(49,181,497)	$	(6,716,445)
Denominator for basic and diluted weighted average shares		27,025,995		24,670,516		22,393,030
Basic and diluted net decrease in net assets per share resulting from operations		(0.01)		(1.99)	$	(0.30)

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NOTE 12. SUBSEQUENT EVENTS

On January 15, 2010, we made a $250,000 new investment in ABS Materials, Inc., a privately held tiny technology company.

On January 19 and February 19, 2010, we made two follow-on investments totaling $171,975 in a privately held tiny technology portfolio company.

On January 20 and February 10, 2010, we made two follow-on investments totaling $4,564 by exercising our warrants to purchase shares of common stock of NeoPhotonics Corporation, a privately held tiny technology portfolio company.

On February 5, 2010, we made a $98,427 follow-on investment in Orthovita, Inc., a publicly traded tiny technology portfolio company.

On February 10, 2010, we made a $500,000 follow-on investment in a privately held tiny technology portfolio company.

On February 24, 2010, CFX Battery, Inc., changed its name to Contour Energy Systems, Inc.

On March 8, 2010, we made a $99,957 new investment in Satcon Technology Corporation, a publicly traded tiny technology company.

On March 10, 2010, we made a $250,041 follow-on investment in a privately held tiny technology portfolio company.

On December 31, 2009, we valued the shares of one of our privately held tiny technology portfolio companies at $0.9696 per share. On March 10, 2010, that company raised additional funding from a third party, independent financial investor at the equivalent of $1.26 per share. This transaction could be a material input to our determination of the value of our shares of this portfolio company at March 31, 2010. A valuation calculated based on this input alone could increase the value of this portfolio company at March 31, 2010, ranging from $0 to approximately $1,400,000, or $0 to approximately $0.05 per share, from the value at December 31, 2009. This input will be one of many used by our Valuation Committee, which is made up of all of our independent directors, to set the value of this portfolio company at March 31, 2010.

One of our portfolio companies has engaged an investment banker for purposes of filing for an IPO in 2010. There can be no assurance that this portfolio company will file for an IPO in 2010, and a variety of factors, including stock market and general business conditions, legal considerations and audit results, could lead it to terminate such consideration.

NOTE 13. SELECTED QUARTERLY DATA (UNAUDITED)

	2009			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment (loss) income	$ (23,561)	$ 83,834	$ 105,677	$ 81,898
Net operating loss	$ (2,098,879)	$ (1,998,271)	$ (2,242,953)	$ (2,421,112)
Net (decrease) increase in net assets resulting from operations	$ (951,424)	$ 421,367	$ (296,319)	$ 677,911
Net (decrease) increase in net assets resulting from operations per average outstanding share	$ (0.04)	$ 0.02	$ (0.01)	$ 0.02

	2008			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment income	$ 576,302	$ 467,625	$ 587,918	$ 355,502
Net operating loss	$ (2,480,618)	$ (2,638,283)	$ (2,196,739)	$ (3,371,511)
Net (decrease) increase in net assets resulting from operations	$ (3,289,035)	$ 1,354,709	$ (34,032,747)	$ (13,214,424)
Net (decrease) increase in net assets resulting from operations per average outstanding share	$ (0.14)	$ 0.06	$ (1.32)	$ (0.51)

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HARRIS & HARRIS GROUP, INC.
FINANCIAL HIGHLIGHTS

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Per Share Operating Performance			
Net asset value per share, beginning of year	$ 4.24	$ 5.93	$ 5.42
Net operating loss*	(0.32)	(0.43)	(0.53)
Net realized (loss) income on investments*	(0.42)	(0.34)	0.00
Net decrease in unrealized depreciation as a result of sales*	0.41	0.34	0.00
Net decrease (increase) in unrealized depreciation on investments held*(1)	0.32	(1.49)	0.23
Total from investment operations*	(0.01)	(1.92)	(0.30)
Net increase as a result of stock- based compensation expense*	0.11	0.24	0.36
Net increase as a result of proceeds from exercise of options	0.00	0.00	0.19
Net increase (decrease) as a result of stock offering, net of offering expenses	0.01	(0.01)	0.26
Total increase from capital stock transactions	0.12	0.23	0.81
Net asset value per share, end of year	$ 4.35	$ 4.24	$ 5.93
Stock price per share, end of year	$ 4.57	$ 3.95	$ 8.79
Total return based on stock price	15.7%	(55.06)%	(27.3)%
Supplemental Data:			
Net assets, end of year	$ 134,158,258	$ 109,531,113	$ 138,363,344
Ratio of expenses to average net assets	7.8%	9.6%	11.6%
Ratio of net operating loss to average net assets	(7.6)%	(8.1)%	(9.5)%
Cash dividends paid per share	$ 0.00	$ 0.00	$ 0.00
Taxes payable on behalf of shareholders on the deemed dividend per share	$ 0.00	$ 0.00	$ 0.00
Number of shares outstanding, end of year	30,859,593	25,859,573	23,314,573

*Based on average shares outstanding.

(1) Net unrealized gains (losses) includes rounding adjustments to reconcile change in net asset value per share. See Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of unrealized losses on investments.

The accompanying notes are an integral part of this schedule.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures.

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as required by Rules 13a-15 of the Exchange Act). Disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the issuer's management, as appropriate, to allow timely decisions regarding required disclosures. As of December 31, 2009, based upon this evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm, on the Company's internal control over financial reporting, is included in Item 7 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2009 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information.

None.

PART III

Item 9. Directors, Executive Officers and Corporate Governance.

The information set forth under the captions "Nominees," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Audit Committee" in our Proxy Statement for the Annual Meeting of Shareholders to be held May 6, 2010, to be filed pursuant to Regulation 14A under the Exchange Act (the "2010 Proxy Statement"), is herein incorporated by reference.

We have adopted a Code of Conduct for Directors and Employees, which also applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller and is posted on our website at http://www.hhvc.com/shareholder_information/Code_of_Conduct.html.

The Board of Directors has determined that Dugald A. Fletcher, James E. Roberts and Richard P. Shanley are all "Audit Committee Financial Experts" serving on our Audit Committee. Messrs. Fletcher, Roberts and Shanley are independent as defined under Section 2(a)(19) of the 1940 Act and under the rules of the Nasdaq Stock Market.

Item 10. Executive Compensation.

The information set forth under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report on Executive Compensation" in the 2010 Proxy Statement is herein incorporated by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information set forth under the caption "How Many Shares Do the Company's Principal Shareholders, Directors and Executive Officers Own?" in the 2010 Proxy Statement is herein incorporated by reference. The "Equity Compensation Plan Information" chart is set forth herein under Item 4.

Item 12. Certain Relationships and Related Transactions, and Director Independence.

The information set forth under the captions "Nominees" and "Related Party Transactions" in the 2010 Proxy Statement is herein incorporated by reference.

Item 13. Principal Accountant Fees and Services.

The information set forth under the captions "Audit Committee's Pre-Approval Policies" and "Fees Paid to PwC for 2009 and 2008" in the 2010 Proxy Statement is herein incorporated by reference.

PART IV

Item 14. Exhibits and Financial Statements Schedules.

(a) The following documents are filed as a part of this report:

(1) Listed below are the financial statements which are filed as part of this report:

- Consolidated Statements of Assets and Liabilities as of December 31, 2009, and 2008;
- Consolidated Statement of Operations for the years ended December 31, 2009, 2008, and 2007;
- Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008, and 2007;
- Consolidated Statements of Changes in Net Assets for the years ended December 31, 2009, 2008, and 2007;
- Consolidated Schedule of Investments as of December 31, 2009;
- Consolidated Schedule of Investments as of December 31, 2008;
- Footnote to Consolidated Schedule of Investments;
- Notes to Consolidated Financial Statements; and
- Financial Highlights for the years ended December 31, 2009, 2008, and 2007.

(2) No financial statement schedules are required to be filed herewith because (i) such schedules are not required or (ii) the information has been presented in the above financial statements.

(3) The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Exchange Act.

3.1(a) Restated Certificate of Incorporation of Harris & Harris Group, Inc., dated September 23, 2005, incorporated by reference as Exhibit 99 to Form 8-K (File No. 814-00176) filed on September 27, 2005.

3.1(b) Certificate of Amendment of the Certificate of Incorporation of Harris & Harris Group, Inc., dated May 19, 2006, incorporated by reference as Exhibit 3.1 to the Company's Form 10-Q (File No. 814-00176) filed on August 9, 2006.

3.2 Restated By-laws, incorporated by reference as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 814-00176) filed on March 16, 2009.

4 Form of Specimen Certificate of Common Stock, incorporated by reference as Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 814-00176) filed on March 16, 2009.

10.1 Harris & Harris Group, Inc. Form of Custody Agreement with The Bank of New York Mellon, incorporated by reference as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 814-00176) filed on March 16, 2009.

10.2 Form of Indemnification Agreement which has been established with all directors and executive officers of the Company, incorporated by reference as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 814-00176) filed on March 16, 2009.

10.3 Harris & Harris Group, Inc. Amended and Restated Employee Profit-Sharing Plan, incorporated by reference as Exhibit 10.8 to the Company's Form 10-K for the year ended December 31, 2007 (File No. 814-00176) filed on March 13, 2008.

10.4 Harris & Harris Group, Inc. 2006 Equity Incentive Plan, incorporated by reference as Appendix B to the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders filed on April 3, 2006.

10.5 Form of Incentive Stock Option Agreement incorporated by reference as Exhibit 10.1 to the Company's Form 8-K (File No. 814-00176) filed on June 26, 2006.

10.6 Form of Non-Qualified Stock Option Agreement, incorporated by reference as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 814-00176) filed on March 16, 2009.

10.7 Amended and Restated Harris & Harris Group, Inc. Executive Mandatory Retirement Benefit Plan, dated November 5, 2009, incorporated by reference as Exhibit 10.1 to the Company's Form 8-K (File No. 814-00176) filed on November 12, 2009.

10.8 Agreement of Sub-Sublease, dated April 18, 2003, by and between Prominent USA, Inc. and Harris & Harris Group, Inc., incorporated by reference as Exhibit 10.17 to the Company's Form 10-K for the year ended December 31, 2007 (File No. 814-00176) filed on March 13, 2008.

10.9 Amendment to Agreement of Sub-Sublease, dated May 9, 2003, by and between Prominent USA, Inc., and Harris & Harris Group, Inc., incorporated by reference as Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 2007 (File No. 814-00176) filed on March 13, 2008.

10.10 Assignment and Assumption, Modification and Extension of Sublease Agreement, dated December 17, 2004, by and among the Economist Newspaper Group, Inc., National Academy of Television Arts & Sciences, and Harris & Harris Group, Inc., incorporated by reference as Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 2007 (File No. 814-00176) filed on March 13, 2008.

10.11 Lease dated July 1, 2008 by and between Jack Rominger, Tommie Plemons and Dale Denson as Lessor and Harris & Harris Group, Inc., a New York corporation, as Lessee, incorporated by reference as Exhibit 10.1 to the Company's Form 10-Q (File No. 814-00176) filed on November 7, 2008.

10.12 Lease Agreement, dated September 24, 2009, between Rosh 1450 Properties LLC and Harris & Harris Group, Inc., incorporated by reference as Exhibit 10.1 to the Company’s Form 8-K (File No. 814-00176) filed on September 24, 2009.

10.13 Nonsolicitation and Noncompetition Agreement between the Company and Charles E. Harris, dated July 31, 2008, incorporated by reference as Exhibit 10 to the Company's Form 8-K (File No. 814-00176) filed on August 1, 2008.

10.14* Harris & Harris Group, Inc. Employee Stock Purchase Plan.

14.1* Code of Conduct for Directors and Employees of Harris & Harris Group, Inc.

14.2* Code of Ethics Pursuant to Rule 17j-1.

31.01* Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.02* Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.01* Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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*Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARRIS & HARRIS GROUP, INC.

Date: March 15, 2010	By:	/s/ Douglas W. Jamison Douglas W. Jamison Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Douglas W. Jamison Douglas W. Jamison	Chairman of the Board and Chief Executive Officer	March 15, 2010
/s/ Daniel B. Wolfe Daniel B. Wolfe	Chief Financial Officer	March 15, 2010
/s/ Patricia N. Egan Patricia N. Egan	Chief Accounting Officer and Senior Controller	March 15, 2010
/s/ W. Dillaway Ayres, Jr. W. Dillaway Ayres, Jr.	Director	March 15, 2010
/s/ C. Wayne Bardin C. Wayne Bardin	Director	March 15, 2010

/s/ Phillip A. Bauman Phillip A. Bauman	Director	March 15, 2010
/s/ G. Morgan Browne G. Morgan Browne	Director	March 15, 2010
/s/ Dugald A. Fletcher Dugald A. Fletcher	Director	March 15, 2010
/s/ Lori D. Pressman Lori D. Pressman	Director	March 15, 2010
/s/ Charles E. Ramsey Charles E. Ramsey	Director	March 15, 2010
/s/ James E. Roberts James E. Roberts	Director	March 15, 2010
/s/ Richard P. Shanley Richard P. Shanley	Director	March 15, 2010

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EXHIBIT INDEX

Exhibit No.	Description
10.14	Harris & Harris Group, Inc. Employee Stock Purchase Plan
14.1	Code of Conduct for Directors and Employees of Harris & Harris Group, Inc.
14.2	Code of Ethics Pursuant to Rule 17j-1.
31.01	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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