

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

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 27, 1999

Commission File Number: 0-11576

HARRIS & HARRIS GROUP, INC.

-----  
(Exact name of registrant as specified in its charter)

New York

13-3119827

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

One Rockefeller Plaza, Rockefeller Center, New York, New 10020

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

212/332-3600

-----  
(Registrant's telephone number, including area code)

Item 5. Other Events

Attached as an exhibit is the Employment Agreement between Harris & Harris Group, Inc. and Charles E. Harris (the "Agreement"). Mr. Harris is the Chief Executive Officer of Harris & Harris Group, Inc. The Agreement was approved by the Board of Directors and signed by Mr. Harris on October 19, 1999. This Agreement replaces Mr. Harris's previous agreement which was to expire on December 31, 1999.

Item 7. Financial Statements and Exhibits

(c) Exhibits

Item 601(a) of Regulation S-K  
Exhibit No. (99)

Description

Employment Agreement Between Harris & Harris Group, Inc.  
and Charles E. Harris, dated October 19, 1999

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Harris & Harris Group, Inc.

By: /s/ Rachel M. Pernia

-----  
Rachel M. Pernia, Controller

Date: October 27, 1999

EMPLOYMENT AGREEMENT

between

HARRIS & HARRIS GROUP, INC.

and

CHARLES E. HARRIS

dated October 19, 1999

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement"), dated October 19, 1999, between HARRIS & HARRIS GROUP, INC. (the "Company"), a New York corporation, and CHARLES E. HARRIS (the "Executive")

WITNESSETH THAT:

WHEREAS, the Executive is currently serving as Chairman and Chief Executive Officer of the Company, pursuant to an Amended and Restated Employment Agreement, dated as of January 1, 1998 (the "Prior Agreement"); and

WHEREAS, the Prior Agreement expires on December 31, 1999; and

WHEREAS, the Company and the Executive wish to set forth the terms and conditions of Executive's employment by the Company commencing on the date hereof;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

1. Employment. The Company shall employ the Executive, and the Executive shall be employed by the Company, for the Period of Employment provided in paragraph 3(a) below and upon the other terms and conditions set forth in this Agreement.

2. Position and Responsibilities: During the Period of Employment, the Executive shall:

(a) Serve as the Chairman and Chief Executive Officer of the Company;

(b) Be responsible for the general management of the affairs of the Company and all its subsidiaries, reporting directly to the Board of Directors of the Company (the "Board");

(c) Serve as a member of the Board for the period for which he is and shall from time to time be elected or reelected; and

(d) Serve, if elected, as President of the Company and as an officer and director of any subsidiary or affiliate of the Company.

1

3. Terms and Duties

(a) Period of Employment.

(1) The period of the Executive's employment under this Agreement (the "Period of Employment") shall commence on the date hereof and shall terminate on December 31, 2004, subject to the earlier termination in accordance with the terms of this Agreement and subject to extension in accordance with the terms of paragraph 3(a)(2) below.

(2) The Period of Employment shall automatically be extended for one additional day (subject to earlier termination in accordance

with the terms of this Agreement) for each day of the Period of Employment that elapses until either the Executive or the Company notifies the other party in writing that the Company or the Executive does not want the Period of Employment extended thereafter.

(b) Duties. While employed by the Company, (except for illness or incapacity and vacation periods) the Executive shall perform and discharge well and faithfully the duties which the Board may assign to him from time to time. The Executive shall not, without the prior consent of the Board, engage in any business activity for which he is compensated unrelated to the Company's business; provided, however, the foregoing shall not be deemed to prohibit the Executive from devoting time to his personal investments or from continuing the activities he had been engaged in at the time this Agreement is entered into with respect to his then personal investments. The Executive shall be permitted to perform and discharge his duties from any location.

4. Compensation. For all services rendered by the Executive in any capacity during the Period of Employment, including, without limitation, services as an executive, officer, director or member of any committee of the Company or of any subsidiary, affiliate or division of the Company, the Company shall compensate the Executive as described in paragraphs (a) through (g) below. For purposes of this Section 4, the term "Board" shall mean either the Board of Directors of the Company or a committee of the Board of Directors (i.e., the Compensation Committee of the Board of Directors).

(a) Base Salary. During the Period of Employment, the Company shall pay the Executive a fixed salary (the "Base Salary") at an annual rate of not less than \$202,980. On January 1, 2001, and on each January 1 thereafter during the Period of Employment, the Base Salary shall be increased so that the new Base Salary equals the product of the Base Salary in effect on the immediately preceding December 31 times the quotient obtained by dividing A by B, where:

2

"A is the Consumer Price Index, All Urban Consumers (CPI-U), U.S. City of Average for All Items (standard reference base period 1982-84 = 100) (the "CPI"), as published during the September immediately preceding the January 1 with respect to which the increased Base Salary is being computed; and

B is the CPI as published during the September twelve months prior to the September referred to in "A" above. If during the Period of Employment, the United States Bureau of Labor Statistics (the "Bureau") ceases publication of the CPI, the calculations required hereby shall thereafter be made using the consumer price index published by the Bureau (or any successor agency of the federal government) that is most nearly equivalent to the CPI."

(b) Discretionary Base Salary Increases. At any time or from time to time during the Period of Employment, the Board may increase the Base Salary to an amount exceeding the Base Salary determined pursuant to paragraph 3(a) above. Following any such discretionary increase in the Base Salary, the Board may or may not maintain the Base Salary at that increased level (or further increase the Base Salary beyond that level). But in no event shall the Base Salary in effect for any portion of the Period of Employment be an annual amount less than the amount determinable in accordance with paragraph 3(a) above.

(c) Incentive Compensation. During the Period of Employment, the Executive shall participate in the Company's Employee Profit Sharing Plan (the "Profit Sharing Plan"), a copy of which is attached to this Agreement as Schedule A. If during the Period of Employment, the Executive ceases to participate in the Profit Sharing Plan, the Profit Sharing Plan is amended, or his participation in the Profit Sharing Plan is diminished, the Company agrees to restructure his compensation under this Agreement to provide for an earnings opportunity substantially equivalent to that which existed while the Executive participated in the Profit Sharing Plan, prior to the amendment of the Profit Sharing Plan or prior to the time his participation was diminished, as the case may be.

(d) Additional Benefits. In addition, the Executive shall be entitled to participate in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which any salaried

employees are eligible under any plan or program, now or hereafter established and maintained by the Company for salaried employees (which shall be comparable to those provided to senior officers of other comparable companies), to the extent permissible under the general terms and provisions of such plans or programs and in accordance with the provisions thereof, including group hospitalization, health, dental care, life or other insurance, tax-qualified pension, savings, thrift and profit-sharing plans, termination pay programs, sick-leave plans, travel or accident insurance, disability insurance, auto allowance or auto lease plans, and executive contingent compensation plans, including, without limitation, capital accumulation programs and stock purchase, restricted stock or stock option plans.

3

Specifically, but without limitation, the Company shall furnish the Executive, with (1) cash reimbursement for the cost of term life insurance for the benefit of the Executive's designated beneficiary in the amount of at least \$2,000,000, (2) supplemental uninsured medical reimbursement plan coverage of \$10,000 for expenses incurred by the Executive or his covered dependents which are not covered by the Company's group hospitalization, health and dental care insurance plans, provided that this \$10,000 limit shall be increased so that on a cumulative basis, such limit equals the product of \$10,000 multiplied times the quotient (the "CPI Factor") obtained by dividing the CPI published during the most recent September by the CPI published for September, 1999, (3) disability insurance (through an insurance carrier and/or self-insured by the Company) for the benefit of the Executive in the amount of 100% of his Base Salary and (4) long-term care insurance (through an insurance carrier) for the benefit of the Executive and his spouse in an amount reasonable expected to cover daily expenses of \$250 (subject to cost of living adjustments) the Executive and his spouse may each incur with respect to long-term care. After an event of a Change of Control (as defined in the Severance Compensation Agreement, made effective as of August 15, 1990, by and between the Company and the Executive), the disability insurance referred to in clause (3) above shall be provided through an insurance carrier. If such disability insurance is provided to the Executive at any time through an insurance carrier, then at the Executive's election, the Company shall increase the Executive's Base Salary in an amount equal to the premium payments due with respect to such insurance and the Executive shall thereafter be responsible for making the premium payments for such coverage.

(e) Perquisites. The Company shall also furnish the Executive, without cost to him, with (1) a Company-owned or leased automobile which will be replaced with a new automobile every four years, provided that the Executive may select the automobile and, if the value of the automobile selected by the Executive is greater than \$40,000 times the CPI Factor (for purposes of this clause (1) only, the CPI Factor shall be based on the CPI published for September, 1991 rather than for September, 1999), the Executive shall pay to the Company, each month during which he shall have use of the automobile, the difference between the monthly market rental of the vehicle being furnished to the Executive and the monthly market rental of an automobile with a value of \$40,000 times the CPI Factor; and (2) membership in one health club (including the cost of a personal trainer), one luncheon club, and one social or country club of the Executive's choosing. The Company shall also reimburse the Executive annually for the cost of (1) an annual physical examination of the Executive by a physician selected by the Executive, and (2) personal financial, investment or tax advice, not to exceed \$5,000 times the CPI Factor per annum. Any reimbursable amount for the cost of personal financial, investment or tax advice not utilized in a year shall be available to reimburse the Executive for such costs incurred in a prior or subsequent year. The Executive shall properly document such costs for federal income

4

taxation purposes to preserve any deduction for such reimbursements to which the Company may be entitled.

(f) Deferred Compensation. The Company agrees to adopt a supplemental executive retirement plan (the "SERP") for the benefit of the Executive. Under the SERP, the Company shall cause an amount equal to one-twelfth of the Executive's current Base Salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on the books of the Company for the benefit of the Executive (the "SERP Account"). The amounts credited to the SERP Account shall be deemed invested or reinvested in such mutual

funds (or, if the Board makes a determination described in the last sentence under this paragraph 4(f), such U.S. Government securities) as determined by the Executive. The SERP Account shall be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. The Executive's benefit under the SERP shall equal the balance in the SERP Account and such benefit shall always be 100% vested (i.e., not forfeitable). The Executive shall determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination of the Period of Employment pursuant to paragraphs 6, 7 or 8, the balance in the SERP Account shall be distributed to the Executive or the Executive's beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. The Company shall establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by the Company pursuant to this paragraph 4(f). Each time the Company credits a Monthly Credit to the SERP Account, the Company shall make a corresponding dollar contribution to the trust. The Executive's rights to benefits pursuant to this paragraph 4(f) shall be no greater than those of a general creditor of the Company. The Executive's benefits pursuant to this paragraph 4(f) may not be anticipated, alienated, pledged, encumbered or subject to attachment, garnishment, levy, execution, or other legal or equitable process. If the Board determines that the investment of the rabbi trust assets in mutual funds will cause the Company to fail to comply with certain statutory asset holding requirements, such assets shall be invested in U.S. Government securities to the extent necessary to meet the statutory requirements.

(g) Office Equipment. During the Period of Employment, the Company shall provide the Executive with state of the art communication and office equipment for use at a residence of the Executive's choice.

(h) Vacation. In each calendar year during the Period of Employment, the Executive shall be entitled to 1 1/2 days of an annual vacation for each full year of employment with the Company (e.g., for 2000, the Executive shall be entitled to 25 1/2 vacation days).

5. Business Expenses. The Company shall pay or reimburse the Executive for all reasonable travel or other expenses incurred by the Executive in connection with the performance of his duties and obligations under this

5

Agreement, including, without limitation, routine and necessary costs of maintaining the automobile (including garage space) provided to the Executive by the Company pursuant to paragraph 4(e) above, subject to the Executive's presentation of appropriate vouchers in accordance with such procedures as the Company may from time to time establish for senior officers and to preserve any deductions for federal income taxation purposes to which the Company may be entitled.

6. Disability.

(a) In the event of the disability of the Executive during the Period of Employment, the Company shall, subject to the provisions of the next following sentence, continue to pay to the Executive the compensation provided in paragraph 4 above during the period of his disability. But if the Executive's disability continues until the Executive becomes entitled to receive the proceeds of the disability insurance described in paragraph 4(d) above (such period commencing upon Executive's disability and end on the date he is entitled to receive disability insurance proceeds, the "Disability Period"), the Company may, at its election, terminate the Period of Employment, in which event the Company's obligation to make payments under paragraph 4 (except as provided in paragraph 4(f)) shall cease, except for (1) earned (through the effective date of the termination) but unpaid Base Salary, (2) incentive compensation, subject to the terms of the Profit Sharing Plan, (3) Monthly Credits to the SERP Account through the effective date of termination and (4) retirement benefits as described in paragraph 10 below. However, the benefits described in paragraph 4(d) and the perquisites described in paragraph 4(e), shall continue to be provided for a period of ten years, except that the Company shall only continue to provide the automobile described in paragraph 4(d) for six months following termination of the Period of Employment and then allow the Executive to assume (without any continuing obligations under the lease, if any, on the part of the Company) the Company's rights and obligations to lease or purchase such automobile (to the extent any

lease is so assumable) or to purchase such automobile at its then book value.

(b) During the period the Executive is receiving payments, either under paragraph 6 or under the disability insurance described in paragraph 4(d) above, to the extent that he is physically and mentally able to do so, he shall furnish information and assistance to the Company and, upon a reasonable request in writing by the Board from time to time, he shall make himself available to the Company to undertake reasonable assignments consistent with the dignity, importance, and scope of his prior position with the Company and his physical and mental health. During the Disability Period, the Executive shall report directly to the Board. If the Company fails to make a payment or provide a benefit required under paragraph 6(a), the Executive's obligation to furnish information and assistance and undertake assignments shall terminate.

6

(c) Upon any cessation of payments under the disability insurance described in paragraph 4(d) above, the Company shall also pay to the Executive or his wife, if he predeceases her during such period, for a period of three years, the Base Salary amount that existed at the time of the Disability Period in the form of severance or disability benefits, or both. Such Base Salary amount shall be paid by the Company in 36 monthly installments commencing in the month following the cessation of payments under the disability insurance.

(d) If the Executive dies during the Disability Period, the Company shall pay his wife, if she survives him, for a period of two years the Base Salary amount that existed at the onset of the disability in the form of a death benefit. Such Base Salary amount shall be paid by the Company in 24 monthly installments commencing in the month following the Executive's death.

(e) As used in this Agreement, the term "disability" shall have the following meaning:

Executive is unable to perform with reasonable continuity the material duties of his position with the Company as a result of sickness, illness, or accidental bodily injury.

7. Death. If the Executive dies during the Period of Employment, the Executive's designated beneficiary shall be entitled to receive the proceeds of any life or other insurance or other death benefit program provided pursuant to paragraph 4(d) above in accordance with the provisions thereof, and the Period of Employment and the Company's obligation to make payments under paragraph 4 (except as provided in paragraph 4(f)) shall cease as of the date of death, except (1) for earned (through the date of death) but unpaid Base Salary, (2) incentive compensation, subject to the terms of the Profit Sharing Plan, (3) Monthly Credits to the SERP Account through the date of death and (4) retirement benefits as described in paragraph 10 below. The Company shall pay the Executive's wife, if she survives him, for a period of two years the Base Salary amount that existed at the time of death in the form of a death benefit. Such Base Salary amount shall be paid by the Company in 24 monthly installments commencing in the month following the Executive's death.

8. Effect of Termination of Employment.

(a) If the Period of Employment hereunder terminates because of either a Without Cause Termination or Constructive Discharge, the Executive shall be entitled to (1) earned (through the effective date of the termination) but unpaid Base Salary, (2) incentive compensation, subject to the terms of the Profit Sharing Plan, (3) Monthly Credits to the SERP Account through the effective date of the termination and (4) retirement benefits as described in paragraph 10 below. In addition, if the Period of Employment is terminated because of either a Without Cause Termination or Constructive Discharge, the

7

Company shall, as liquidated damages or severance pay, or both, pay to the Executive two times his Base Salary in effect at the time of such termination, in the manner and at the times provided in paragraph 4(a) above to the Executive or, in the event of his subsequent death, to his estate. Such payments shall commence immediately following such termination and shall continue for a period of time equal to the remainder of the Period of

Employment immediately prior to such termination (the "Severance Period"). In addition, benefits described in paragraph 4(d), the perquisites described in paragraph 4(e) and the communication and office equipment described in paragraph 4(g) shall continue to be provided during the Severance Period, except that the Company shall only continue to provide the automobile described in paragraph 4(e) for six months following such termination and then allow the Executive to assume (without any continuing obligations under the lease, if any, on the part of the Company) the Company's rights and obligations to lease or purchase such automobile (to the extent any lease is so assumable) or to purchase such automobile at its then book value and that the Company shall continue to provide communication and office equipment to the Executive for only 18 months. To the extent that the Executive is entitled to receive cash compensation that is (or would be, if any elective deferral were disregarded) subject to federal income taxation in respect of any other employment or a consulting position with another company during the Severance Period, the payments to be made pursuant to this paragraph 8(a) shall be correspondingly reduced by such cash compensation and, to the extent that benefits of the kind required by this paragraph 8(a) to be continued are payable in respect of such other employment or consulting position, such benefits provided by the other Company shall be deemed the primary coverage for purposes of coordination of benefits and avoiding duplication of benefits. However, at no time shall such benefits of a kind described herein, be less than those required by this paragraph 8(a) or paragraphs 4(d) and 4(e).

(b) If the Period of Employment hereunder terminates because of a Termination for Cause, (1) earned (through the effective date of termination) but unpaid Base Salary, (2) incentive compensation, subject to the terms of the Profit Sharing Plan and (3) Monthly Credit to the SERP Account through the effective date of the termination shall be payable to the Executive, but no other payments (except deferred compensation as provided in paragraph 4(f)) shall be made, or benefits provided, by the Company.

(c) As used in this Agreement:

(1) "Termination for Cause" means a termination of the Period of Employment by the Company, by written notice to the Executive, specifying the event relied upon for such termination, because of the Executive's serious, willful misconduct in respect of his duties under this Agreement, including, without limitation, conviction of a felony or for perpetration of a common law fraud which has resulted in material economic damage to the Company or any of its subsidiaries or affiliates. If the Executive's misconduct can be cured, a Termination for Cause shall not occur

8

until the Executive fails to so cure within 30 days from delivery to the Executive of a written demand by the Company that he do so, which demand shall specify the misconduct being relied upon for termination pursuant to this paragraph 8(c)(1).

(2) "Constructive Discharge" means a termination of the Period of Employment by the Executive because of (A) a failure of the Company to fulfill its obligations under this Agreement in any material respect, including any failure to elect or reelect or to appoint or reappoint the Executive to the offices of Chairman of the Company and its Chief Executive Officer or as a member of the Board or other material change by the Company in the functions, duties, or responsibilities of the Executive's position with the Company which would reduce the ranking or level, dignity, responsibility, importance, or scope of such position, or (B) any assignment or reassignment by the Company of the Executive to a place of employment other than the Company's headquarters, (which shall be located in New York, New York, or other location of the Executive's choosing). A Constructive Discharge shall apply to any case in which the Company shall have failed to remedy within 30 days from delivery to the Company of a written demand by the Executive that it do so, which demand shall specify the circumstances being relied upon for termination pursuant to this paragraph 8(c)(2).

(3) "Without Cause Termination" means a termination of the Period of Employment by the Company other than because of disability or expiration of the Period of Employment and other than a Termination for Cause. The exercise by the Company or the Executive, as the case may be of a right to terminate the Period of Employment under this paragraph 8(c) shall not abrogate the rights and remedies of the terminating party in respect of the



circumstances giving rise to such termination.

9. Other Duties of Executive During and After Period of Employment.

(a) The Executive shall, upon reasonable notice, during or after the Period of Employment, furnish such information as may be in his possession to, and cooperate with, the Company, as the Company may reasonably request in connection with the analysis, negotiation, and settlement of any pending claims and any litigation in which the Company or any of its subsidiaries or affiliates, is, or may become, a party.

(b) The Executive recognizes and acknowledges that all information pertaining to the affairs, business, or clients of the Company or any of its subsidiaries or affiliates, as such information may exist from time to time, is confidential information and is a unique and valuable asset of the Company, access to and knowledge of which are essential to the performance of the Executive's duties under this Agreement. The Executive shall not, during the Period of Employment or thereafter, except to the extent reasonably necessary

9

in the performance of his duties under this Agreement, divulge to any person, firm, association, corporation or governmental agency, any information concerning the affairs, business, clients, or customers of the Company or any of its subsidiaries or affiliates (except such information as it is required by law to be divulged to a government agency), or make use of any such information for his own purposes or for the benefit of any person, firm, association or corporation (except the Company or its subsidiaries or affiliates) and shall use his best efforts to prevent the disclosure of any such information by others. All records, memoranda, letters, books, papers, reports, accountings, experience or other data, and other records and documents relating to the business of the Company or any of its subsidiaries or affiliates, whether made by the Executive or otherwise coming into his possession, are confidential information and are, and shall be, and shall remain the property of the Company.

(c) During the Period of Employment and for a one year period thereafter in the event of (1) a Termination for Cause, (2) a termination of the Period of Employment by the Executive that is not a Constructive Discharge, or (3) the disability of the Executive, the Executive shall not:

Make any statement or perform any act intended to advance an interest of any existing or prospective competitor of the Company or any of its subsidiaries or affiliates in any way that will injure an interest of the Company or any of its subsidiaries or affiliates in its relationship and dealings with existing or potential clients, customers or brokers or to do any act that is disloyal to the Company or inconsistent with the Company's interests or in violation of any provision of this Agreement.

(d) The Company's obligation to make payments under paragraph 4, other than the deferred compensation described in paragraph 4(f), shall cease upon any violation of the provisions of paragraph 9 which is not inadvertent and which has resulted in material economic damage to the Company or any of its subsidiaries.

10. Retirement Benefits. At the termination of Executive's employment with the Company, the Executive, his spouse and dependents shall be entitled to medical and health insurance coverage comparable to what they were receiving immediately prior to the termination of the Executive's employment. The coverage shall be secondary to any government provided or subsequent employer provided health insurance plans. The Company shall reasonably and fairly determine and pay to the Executive or the Executive's spouse, if he dies prior to such payment, the present value of such medical and health insurance benefits (the "Present Value"), together with such additional amount necessary to provide the Executive or his spouse, as the case may be, with an after-tax amount equal to the Present Value. Any dispute as to whether the Company has complied with its obligations under this paragraph 10 may be referred to final and binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and the Company agrees to reimburse the Executive or the Executive's spouse, as the case maybe, for reasonable

attorney fees and expenses incurred by the Executive or the Executive's spouse in connection with such arbitration.

11. Indemnification, Litigation.

(a) Throughout the Period of Employment and thereafter, the Executive shall continue to be entitled to indemnification from the Company pursuant to the Indemnification Agreement, dated as of December 15, 1992 between the Company and the Executive (the "Indemnification Agreement"), a copy of which is attached hereto as Exhibit B.

(b) In the event of any litigation or other proceeding between the Company and the Executive with respect to the subject matter of this Agreement and the enforcement of rights hereunder, the Company shall reimburse the Executive for all costs and expenses relating to such litigation or other proceeding, including reasonable attorneys' fees and expenses, provided that such litigation or proceeding results in any:

(1) Settlement requiring the Company to make a payment to the Executive; or

(2) Judgment, order, or award in favor of the Executive, regardless of whether such judgment, order, or award is subsequently reversed on appeal or in a collateral proceeding.

(c) In no event shall the Executive be required to reimburse the Company for any of the costs and expenses relating to such litigation or other proceeding referred to in paragraph 11(b).

12. Withholding Taxes. The Company may directly or indirectly withhold from any payments made under this Agreement all federal, state, city, or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

13. Consolidation, Merger, or Sale of Assets; Change of Control. Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder. Upon such a consolidation, merger, or transfer of assets and assumption, the term "Company" as used herein shall mean such other corporation and this Agreement shall continue in full force and effect.

(b) The provisions of the Severance Compensation Agreement, made effective as of August 15, 1990, by and between the Company and the Executive, (the "Severance Compensation Agreement"), a copy of which is attached hereto as Exhibit C shall continue to be effective except that references to an "Employment Agreement" therein shall hereafter refer to this Agreement and the

11

computation provided for in Section 2(a) thereof shall not include the Executive's incentive compensation and bonus.

14. Effect of Prior Agreements. This Agreement between the Company and the Executive, together with the Indemnification Agreement and the Severance Compensation Agreement, contains the entire understanding between the Company and the Executive with respect to the subject matter hereof and supersedes any prior employment agreement (including the "Prior Agreement") between the Company or any predecessor of the Company and the Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to the Executive of a kind elsewhere provided and not expressly provided in this Agreement.

15. Notices. All notice, requests, demands, and other communications required or permitted hereunder shall be given in writing and shall be deemed to have been duly given if hand delivered or mailed, postage prepaid by same day or overnight mail as follows:

- (1) To the Company: Harris & Harris Group, Inc.  
One Rockefeller Plaza, Suite 1430  
New York, NY 10020  
Attn.: Secretary

(2) To the Executive: Charles E. Harris  
641 Fifth Avenue, #40D  
New York, NY 10022

or to such other address as either party shall have previously specified in writing to the other.

16. No Attachment. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect. But nothing in this paragraph 16 shall preclude the executors, administrators, or other legal representatives of the Executive from assigning any rights hereunder to the person or persons entitled thereto.

17. Binding Agreement. This Agreement shall benefit and bind (a) the Executive, his heirs, beneficiaries, and personal representatives, and (b) the Company and its successors and assigns.

18. Severability. If any provision of this Agreement shall be held or deemed to be invalid, inoperative or unenforceable in any jurisdiction or

12

jurisdictions, because of conflicts with any constitution, statute, rule or public policy or for any other reason, such circumstance shall not have the effect of rendering the provision in question unenforceable in any other jurisdiction or in any other case of circumstance or of rendering any other provisions herein contained unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule or public policy, but this Agreement shall be reformed and construed in any such jurisdiction or case as if such invalid, inoperative, or unenforceable provision had never been contained herein and such provision reformed so that it would be enforceable to the maximum extent permitted in such jurisdiction or in such case.

19. Modification and Waiver. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto. No terms or condition of the Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement except by written instrument signed by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived.

20. Headings of No Effect. The paragraph headings contained in this Agreement are included solely for convenience of reference and shall not in any way affect the meaning or interpretation of any of the provisions of this Agreement.

21. Governing Law. The laws of New York shall govern the validity, construction, and interpretation of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and its seal to be affixed hereunto by its duly authorized officers, and the Executive has signed and delivered this Agreement, on the dates set forth below.

HARRIS & HARRIS GROUP, INC.

BY: /s/ Mel P. Melsheimer

Title: President

Date: October 20, 1999

/s/ Charles E. Harris

-----  
Charles E. Harris

Date: October 19, 1999