

**CHARTER
OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS**

of
Harris & Harris Group, Inc.

(As Adopted on November 1, 2007)

The Board of Directors (the “Board”) of Harris & Harris Group, Inc. (the “Company”) has determined that the Audit Committee of the Board shall assist the Board in fulfilling certain of the Board’s oversight responsibilities. The Board hereby adopts this Charter to establish the governing principles of the Audit Committee and shall review and reassess the adequacy of this Charter on an annual basis.

I. Role of the Audit Committee

The role of the Audit Committee is to act on behalf of the Board in fulfilling the following responsibilities of the Board:

- A. To oversee all material aspects of the Company’s accounting and financial reporting processes, internal control and audit functions, except those that are specifically related to the responsibilities of another committee of the Board;
- B. To monitor the independence and performance of the Company’s independent registered public accountants;
- C. To provide a means for open communication among the Company’s independent registered public accountants, financial and senior management and the Board; and
- D. To oversee compliance by the Company with legal and regulatory requirements.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct financial statement audits or to determine that the Company’s financial statements are complete and accurate or are in accordance with generally accepted accounting principles. The responsibility to plan and conduct financial statement audits is that of the Company’s independent registered public accountants. The Company’s management has the responsibility to determine that the Company’s financial statements are complete and accurate and in accordance with generally accepted accounting principles. Nor is it the duty of the Audit Committee to assure the Company’s compliance with laws and regulations. The primary responsibility for these matters also rests with the Company’s management.

II. Composition of the Audit Committee

- A. The Board shall designate the members of the Audit Committee and each member shall serve, subject to his or her earlier resignation or removal from the Audit Committee or his or her ceasing to be a director, until the next such meeting and until their successors are designated by the Board.

- B. The Audit Committee shall consist of at least three members, but no more than six members. The members of the Audit Committee shall meet the independence and experience requirements of the rules of the principal market or transaction reporting system on which the Company's securities are traded or quoted (currently, the Nasdaq Global Market), Section 10A(m)(3) of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission (the "SEC").

III. Meeting of the Audit Committee

The Audit Committee shall meet at least four (4) times each year and more frequently as circumstances may require. The Audit Committee shall be responsible for meeting with the independent registered public accountants at their request to discuss the interim financial statements. The Audit Committee shall meet privately with the independent registered public accountants at least annually in a separate executive session.

IV. Responsibilities of the Audit Committee

The Audit Committee shall assist the Board in overseeing the Company's financial and operating reporting practices, internal controls and compliance with laws and regulations.

Specifically, the Audit Committee shall have the responsibility with respect to:

A. The Company's Risks and Control Environment:

- To discuss with the Company's management and independent registered public accountants the integrity of the Company's financial reporting processes and controls, particularly the controls in areas representing significant financial and business risks; and
- To investigate and follow up on any matters brought to its attention within the scope of its duties.

B. The Company's Independent Registered Public Accountants:

- The Audit Committee shall have the sole authority to appoint or replace the independent registered public accountants (subject, to ratification by the independent directors of the Board). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent registered public accountants (including resolution of disagreements between management and the independent registered public accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent registered public accountants shall report directly to the Audit Committee;
- To ensure that the Audit Committee receives annually from the Company's independent registered public accountants the information about all of the relationships between the independent registered public accountants and the

Company that the independent registered public accountants are required to provide to the Audit Committee, to actively engage in a dialogue with the independent registered public accountants about any relationships between the independent registered public accountants and the Company or any services that the independent registered public accountants provide or propose to provide that may affect the objectivity and independence of the independent registered public accountants and to take, or recommend that the Board take, any appropriate action to oversee the independence of the independent registered public accountants;

- The Audit Committee shall establish guidelines similar to those set forth in Annex A relating to the Company's hiring of employees or former employees of the independent registered public accountants who participated in any capacity in the audit of the Company.
- The Audit Committee shall establish policies or procedures similar to those set forth in Annex B to pre-approve all auditing services and permitted non-audit services (including fees and terms thereof) (the "Covered Services") to be performed for the Company by its independent registered public accountants. The Audit Committee may form and delegate authority to the Chairman of the Audit Committee or subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of the Chairman or such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting; and
- Obtain and review a report from the independent registered public accountant at least annually regarding (a) the independent registered public accountant's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent registered public accountant and the Company. Evaluate the qualification, performance and independence of the independent registered public accountant, including considering whether the auditor's quality controls are adequate and provision of permitted non-audit service is compatible with maintaining the independent registered public accountant's independence, and taking into account the opinions of management.
- To ensure the rotation of the lead (or coordinating) audit partner (or, if required by the rules and regulations of the SEC, other employees of the independent registered public accountants) having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

C. The Company's Financial Reporting Process:

- To oversee the Company's selection of and major changes to its accounting policies;
- To meet with the Company's independent registered public accountants and financial management both to discuss the proposed scope of the audit and to discuss the conclusions of the audit, including any items that the independent registered public accountants are required by generally accepted auditing standards to discuss with the Audit Committee, such as, any significant changes to the Company's accounting policies, the integrity of the Company's financial reporting process and any proposed changes or improvements in financial, accounting or auditing practices;
- To discuss with the Company's financial management and independent registered public accountants the Company's annual results and, when appropriate, the interim results before they are made public;
- To review with management and the independent registered public accountants, prior to the filing of an audit report with the SEC, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by independent registered public accountants;
- To review with management and the independent registered public accountants, prior to the filing of an audit report with the SEC, material written communications between the independent registered public accountants and management, such as any management letter or schedule of unadjusted differences;
- Review disclosures made to the Audit Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls;
- To review with the independent registered public accountants, prior to the filing of an audit report with the SEC, all critical accounting policies and practices to be used;
- To review and discuss with the Company's financial management and independent registered public accountants the Company's audited financial statements including critical accounting policies, qualitative judgments, appropriateness of accounting principles (old and new), financial disclosure practices, and any observations regarding the quality of accounting principles and

underlying estimates and, when appropriate, the Company's interim financial statements, before they are made public;

- To recommend to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K;
- To issue for public disclosure by the Company the report required by the rules of the SEC; and
- To review the appointment, replacement or dismissal of outside accounting firms.

D. Other Matters

- To review and reassess the adequacy of this charter on an annual basis and recommend any changes to the Board;
- To review reports and any financial information submitted by the Company to a government body or the public;
- To report to the Board the matters discussed at each meeting of the Audit Committee;
- Administer the procedures set forth in Annex C relating to the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees or any other provider of accounting related services of concerns regarding questionable accounting or auditing matters;
- To keep an open line of communication with the financial and senior management and the independent registered public accountants and the Board;
- To review in advance and approve any "related party" transaction, or series of similar transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds \$120,000 and in which such related party had, or will have, a direct or indirect material interest. For purposes of this item, a "related party" includes any director or executive officer of the Company, any nominee for election as a director, any security holder who is known to the Company to own of record or beneficially more than five percent of any class of the Company's voting securities, and any member of the immediate family¹ of any of the foregoing persons. The materiality of any interest is to be determined on the basis of the significance of the information to investors in light of all the circumstances of the particular case; and
- To perform other oversight functions as requested by the full Board.

¹ A person's immediate family shall include such person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, and brothers and sisters-in-law.

V. Advisors/Funding

In discharging its duties hereunder, the Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of such compensation as is determined by the Audit Committee to the independent registered public accountants and to any other advisors employed by the Audit Committee. The Company shall also provide funding for any other functions or initiatives undertaken by the Audit Committee.

Hiring Guidelines for Independent Registered Public Accountant's Employees

The Audit Committee has adopted the following practices regarding the hiring by the Company of any employee of its independent registered public accountants who participated in any capacity in the audit of the Company.

1. No member of the audit team that is auditing the Company can be hired by the Company in a financial reporting oversight role (as defined in the SEC's Regulation S-X) for a period of 1 year following the completion of the audit for which that individual was a member of the audit team.

2. The Company's Chief Financial Officer shall consult with the Chairman of the Audit Committee prior to hiring anybody who previously worked for the independent registered public accountant.

Audit Committee Pre-Approval Policy

Statement of Principles

The Audit Committee of the Board of Directors of the Company is required to pre-approve all Covered Services (as defined in this Charter) in order to assure that the provision of the Covered Services does not impair the auditors' independence. Unless a type of service to be provided by the independent registered public accountant is pre-approved in accordance with the terms of this Audit Committee Pre-Approval Policy (the "Policy"), it will require specific pre-approval by the Audit Committee or by any member of the Audit Committee to which pre-approval authority has been delegated.

This Policy and the Appendix A to this Policy describe the Audit, Audit-Related, Tax and All Other services that are Covered Services and that have been pre-approved under this Policy. Appendix A hereto sometimes is referred to herein as the "Service Pre-Approval Document". The term of any such pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. Annually, the Audit Committee will review and re-approve this Policy and approve or re-approve the Service Pre-Approval Document for that year, together with any changes deemed necessary or desirable by the Audit Committee. The Audit Committee may, from time to time, modify the nature of the services pre-approved, the aggregate level of fees pre-approved or both. The Audit Committee hereby directs that each version of this Policy and the Service Pre-Approval Document approved, re-approved or amended from time to time be maintained with the books and records of the Company.

Delegation

In the intervals between the scheduled meetings of the Audit Committee, the Audit Committee delegates pre-approval authority under this Policy to the Chairman of the Audit Committee (the "Chairman"). The Chairman shall report any pre-approval decisions under this Policy to the Audit Committee at its next scheduled meeting. At each scheduled meeting, the Audit Committee will review the Covered Services pre-approved by the Chairman pursuant to delegated authority, if any, and the fees related thereto. Based on these reviews, the Audit Committee can modify, at its discretion, the pre-approval originally granted by the Chairman pursuant to delegated authority. This modification can be to the nature of services pre-approved, the aggregate level of fees approved, or both. The Audit Committee expects pre-approval of Covered Services by the Chairman pursuant to this delegated authority to be the exception rather than the rule and may modify or withdraw this delegated authority at any time the Audit Committee determines that it is appropriate to do so.

Pre-Approved Fee Levels

Fee levels for all Covered Services to be provided by the independent registered public accountant and pre-approved under this Policy will be established annually by the Audit Committee and set forth in the Service Pre-Approval Document. Any increase in pre-approved

fee levels will require specific pre-approval by the Audit Committee (or the Chairman pursuant to delegated authority).

Audit Services

The terms and fees of the annual Audit services engagement for the Company are subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions or fees resulting from changes in audit scope, Company structure or other matters.

In addition to the annual Audit services engagement specifically approved by the Audit Committee, any other Audit services for the Company not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

Audit-Related Services

Audit-Related services are assurance and related services that are not required for the audit, but are reasonably related to the performance of the audit or review of the financial statements of the Company or that are traditionally performed by the independent registered public accountant. Audit-Related services that are Covered Services and are not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

Tax Services

The Audit Committee believes that the independent registered public accountant can provide tax services to the Company such as tax compliance, tax planning and tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the independent registered public accountant in connection with a transaction initially recommended by the independent registered public accountant, the sole business purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code of 1986 and related regulations. Tax services that are Covered Services and are not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

All Other Services

All Other services that are Covered Services and are not listed in the Service Pre-Approval Document for the respective period must be specifically pre-approved by the Audit Committee (or the Chairman pursuant to delegated authority).

Procedures

Requests or applications to provide Covered Services that require approval by the Audit Committee (or the Chairman pursuant to delegated authority) must be submitted to the Audit

Committee or the Chairman, as the case may be, by both the independent registered public accountant and the Chief Financial Officer. A request or application submitted to the Chairman between scheduled meetings of the Audit Committee should include a discussion as to why approval is being sought prior to the next regularly scheduled meeting of the Audit Committee.

Appendix A**Dated: March 2007****Pre-Approved Audit, Audit-Related, Tax and All Other Services for the Period from March 2007 through February 2008**

<u>Service</u>	<u>Range of Fees</u>
Integrated audit of consolidated financial statements at December 31, 2007; internal control over financial reporting as of December 31, 2007; reviews of the unaudited consolidated quarterly financial information for each of the first three quarters in the year ending December 31, 2007; additional terms as specified in the engagement letter.	Up to \$250,000
Services associated with review of any Form N-2 SEC registration statements, periodic reports and other documents filed with the SEC or issued in connection with securities offerings (e.g., comfort letters, consents)	Up to \$35,000
Federal, state and local income and excise tax return preparation and related advice and planning for 2007	\$30,000
Consultation with accountants regarding the impact of new or proposed pronouncements, impact of proposed transactions. Miscellaneous tax advice (e.g., providing tax treatment on securities, application of current or proposed tax laws, tax impact of proposed transaction, registration statement review) Licensing fees for accounting software	Up to \$5,000 per project not to exceed \$10,000
Out of pocket	As incurred

Whistleblower Procedures

1. The Company shall forward to the Audit Committee of the Board of Directors any complaints or concerns that it has received regarding financial statement disclosures, accounting, internal accounting controls or auditing matters.
2. The Company shall establish and publish on its website an e-mail address for receiving complaints or concerns related to financial statement disclosures, accounting, internal accounting controls or auditing matters.
3. Any employee of the Company or any other service provider of accounting related services may submit, on a confidential, anonymous basis if the employee or service provider so desires, any concerns regarding financial statement disclosures, accounting, internal accounting controls or auditing matters by setting forth such concerns in writing and forwarding them in a sealed envelope to the Chairman of the Audit Committee, in care of the Chief Compliance Officer, such envelope to be labeled with a legend such as: "To be opened by the Audit Committee only." Employees may deposit such envelope in the Company's internal mail system or deliver it by hand to the Chief Compliance Officer. If an employee would like to discuss any matter with the Audit Committee, the employee should indicate this in the submission and include a telephone number at which he or she might be contacted if the Audit Committee deems it appropriate.
4. The Audit Committee shall review and consider any such complaints and concerns that it has received and take any action that it deems appropriate in order to respond thereto.
5. The Audit Committee may request special treatment for any complaint or concern, including the retention of outside counsel or other advisors.
6. The Company shall retain any such complaints or concerns for a period of no less than 5 years.
7. The Company's Code of Conduct for Employees and Directors of Harris & Harris Group, Inc. prohibits retaliation as a result of a good faith report of a suspected violation.