



**Harris & Harris Group,
Inc.
Buy**

TINY: \$6.09

Price Target: \$8.00

**Advanced Materials And
Nanotechnology**

**TINY: CFX Battery--A Potential Diamond In The
Rough**

THINK ACTION:

In our view, CFX Battery is a potential diamond in the rough. CFX Battery is an early stage lithium-ion investment within the Harris & Harris portfolio. The company recently announced the raising of additional capital to grow its operations. The ability of the company to secure financing in this tough environment supports our positive view on the emerging lithium-ion battery market. We reiterate our Buy rating on TINY shares and \$8 price target.

KEY POINTS:

An Emerging Lithium-Ion Investment

The ability for early stage company CFX Battery to secure financing in this tough environment supports our positive view on the emerging lithium-ion battery market. The company was formed in 2007 (with \$15 million raised) and is focused on the emerging demand for higher-performance lithium-ion batteries in both the primary (non-rechargeable) and rechargeable markets. The full details have not been disclosed as yet, but CFX has secured the first \$5 million of a planned \$26.9 million round of financing.

Beginning on the next page is an interview we conducted with CFX Battery CEO Joe Fisher, whose career includes 30+ years at Energizer Battery.

Learn More At ThinkEquity's 6th Annual Growth Conference

We highlight that investors should take the opportunity to learn more not only about CFX Battery, but also about the entire Harris & Harris Portfolio at our G6 Growth Conference (September 15-17) in San Francisco, California. CEO Doug Jamison is scheduled to present on September 16, at 8 a.m. PT. We expect Jamison to discuss the maturing companies (such as NeoPhotonics or Molecular Imprints) within the portfolio that are likely to IPO in better market conditions.

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Changes	Current	Previous
Rating	Buy	--
Price Target	\$8.00	--
FY07A NAV	\$5.93A	--
FY08A NAV	\$4.24A	--

52-Week High:	\$8.50
52-Week Low:	\$2.65
Shares O/S-Diluted (M):	25.9
Market Cap (M):	\$157.7
Average Daily Volume:	109,119
Short Interest:	1.3%
Debt/Total Cap:	0.0%
Net Cash Per Share:	\$1.85
P/E (12-month forward):	NA
Est. Long-Term EPS Growth:	NA
P/E/G:	NM
Fiscal Year-End:	Dec

NAV \$	2006A	2007A	2008A
Mar	NA	NA	NA
Jun	NA	NA	NA
Sep	NA	NA	NA
Dec	NA	NA	NA
FY	5.42A	5.93A	4.24A
CY	NA	NA	NA
	1.1x	1.0x	1.4x
	1.1x	1.0x	1.4x

TINY is a venture-capital fund/holdings company for nanotechnology investments, and its shares are commonly valued using NAV.

We had the opportunity to interview Joseph Fisher, the CEO of CFX Battery. The company is developing lithium-ion batteries for the primary and rechargeable markets.

1. Please describe CFX.

CFX Battery is an early stage advanced battery technology company that was formed just over two years ago. We are focused on developing and commercializing new innovative and enabling battery materials and technologies to help power the world. Our core technology was developed at Caltech and also CNRS, the French National Research and Science Center, and is now being expanded with our own internal IP developments as well as through partnerships with several other leading universities and institutions from around the world.

2. How do you envision the roadmap evolving over the next three years?

Our first products to be introduced will focus on CFX primary lithium batteries, but we will shortly thereafter follow up with some improved key components and materials for Lithium-ion batteries and then introducing our new proprietary Rechargeable Batteries.

3. Please highlight the challenges ahead.

We have many challenges, but one key one is speed to market. There are countless new battery companies out there along with all the existing entities who continually introduce new improvements to the world of portable power. Another key challenge is scaling up our technologies from the lab to the manufacturing stage.

4. Please characterize the competitive landscape. Where do you believe CFX could have a competitive advantage?

There are an unbelievable number of new start-up battery companies, not only here in North America, but in Europe and in the Far East. The industry is technology dependent and capital intensive, and many of the new players may underestimate what it takes to get technologies developed and into production. Our competitive advantages include being well funded, excellent technology, and an experienced team that is comprised of a blend of both battery and other high tech industries that have proven track records.

5. While it is still early, how do you see the demand evolving in the various end-markets in the long term for CFX (i.e., consumer, automotive, etc.)?

There is always a demand for longer-lasting and better-performing portable power solutions. We see opportunities in both consumer and automotive, but also several other niche-type applications from industrial, medical, military, and other emerging sectors like RFID and thin-film batteries.

6. What is the company's go-to-market strategy?

This is currently under wraps, but will be more transparent after the first of the year.

7. Many in the U.S. have indicated a preference for PHEV versus all-electric, what are your thoughts?

While PHEVs may provide longer runtime, costs are still prohibitive. All-EVs are possible where driving ranges are less than 100 miles. There are unique opportunities for fleets of vehicles that are in this 100-mile-or-less range. PHEVs in particular will need some subsidies if they ever catch on. EVs will still find their niche.

8. How big do you envision the electric vehicle market will be by 2015?

While there are many forecasts out there, including U.S. President Obama's goal of 1 million EVs by 2015 in the U.S., the actual number and mix is going to vary by geographical region. I have personally seen three previous waves of EV developments. The first was in the '70s, and the second was in the early '90s. The third wave was right around the turn of the century. We are now in the fourth wave, but with oil prices having fallen back from their highs of a year ago, it will be interesting to see what happens. I personally think that this time we will really see the world of EVs here to stay (gradually at first) but with increased penetration and subsidies, and due to increased awareness, demand and concern for the environment.

9. How do you envision U.S. and European battery manufacturers effectively dealing with the low-cost PRC manufacturers?

The PRC manufacturers have done an excellent job of developing products, scaling manufacturing, reducing costs, and improving safety and performance. There are no current U.S. and European Li Ion manufacturers of any scale, today, so they have a long way to go. All the government money that is going to be awarded in the U.S. will help increase focus and funds, but I question the viability of many of these new companies. There will be a fall out of many of these companies, both here in the U.S. as well as in Europe.



10. What do you see as the largest obstacle to the widespread adoption of li-ion batteries—cost, safety, infrastructure (in the case of li-ion batteries for EVs), another factor?

Definitely cost. Safety has improved with some of the recent technologies like Iron Phosphate, and Manganese spinels are improving, not to mention the improved Battery Management Units developments. But these are still costly. Infrastructure is also a challenge, but I feel cost is the biggest obstacle.

VALUATION:

We reiterate our view that the Harris & Harris portfolio of nanotechnology investments is starting to ripen. We believe that TINY's current share price presents a good entry point for investors to participate in the evolving nanotechnology-applications landscape. We reiterate our Buy rating. Our \$8 price target is based on 1.9x the 2008 NAV of \$4.24.

Nanotechnology has the potential to greatly change communications, medicine, computation, energy productivity, and consumer lifestyles, in our view. Most entities performing nanoscale research and development are considered "early-stage," as they have yet to commercialize products and record revenues. However, over the next few years, we expect several companies to "break out" and change the industries mentioned for the better.

RISKS TO PRICE TARGET:

- Lack of investment opportunities for venture capital in the "tiny tech" arena.
- Write-downs of current investments in the portfolio.
- Delays in exit opportunities beyond expectations.
- Adverse changes in tax laws that are currently advantageous to investors.
- Severe market conditions for small-cap growth stocks.

COMPANY DESCRIPTION:

Harris & Harris Group is a business development company specializing in venture capital investments.

Important Disclosures

Analyst Certification

I, Michael Lew, hereby certify that all of the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Rating Definitions

The ThinkEquity LLC rating system is based on a stock's expected total return over a 12-month investment horizon. Ratings on coverage are defined as follows:

Buy: Appreciation potential of 20% or more over the next 12 months. Analyst has a high level of conviction that the company's business fundamentals are intact and that the company will meet or exceed earnings projections. Valuation is considered reasonable considering the company's potential.

Accumulate: Appreciation potential greater than 0% and less than 20% over the next 12 months. Typically good companies, with fundamentals and earnings visibility intact, but current valuation limits upside potential.

Source of Funds: Stock is expected to decline as much as 20% over the next 12 months, due to a single or combination of factors including excessive valuation, negative sector sentiment, and/ or reduced earnings expectations.

Sell: Stock expected to decline 20% or more over the next 12 months. Company fundamentals are deteriorating, leading to material downward revisions in earnings projections and valuation.



Distribution of Ratings, Firmwide				
ThinkEquity LLC				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	102	53.10	13	12.75
HOLD [Acc]	70	36.50	4	5.71
SELL [S/SoF]	20	10.40	0	0.00

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