

Can TINY Raise Really Make Big On Your Nanotechnology Dollars?

By Pearl Chin, PhD, MBA

Harris and Harris, or Tiny Tech VC, as they are known now and which trades as TINY on the NASDAQ, wants to sell an additional 3 million shares at \$11.25 for a final raise of \$31.7 Million. They had 13,798,845 outstanding shares prior to this offering.

Harris and Harris intends to use the net proceeds of the offering to make new investments in tiny technology, microsystem and MEMS (microelectromechanical systems). Their last 16 initial private equity investments have been in tiny-technology enabling companies. In July 2002, Harris and Harris had completed a rights issue in which it raised \$5.9 million when it changed its stock ticker from HHGP to TINY.

A question to consider is whether Harris and Harris really is expert in investing in nanotechnology startup companies besides the fact they were one of the early pioneers in the nanotech investment wave? They invested in Nanophase which went public in 1997 but even Harris and Harris admit they were still learning about what nanotechnology was when they did this.

If we look at Harris and Harris's management team, CEO Charlie Harris has a classic investment banker background coupled with an impressive ivy league education. COO and CFO Mel Melsheimer has diverse corporate finance experience in executive positions. Both Charlie Harris and Mel Melsheimer have MBA's and Harris and Harris have done quite well in the past in non-nanotech investments and their significant salaries, being well into the six figures, reflect that.

In an interview with The Deal in August 2002, they were raising \$5.9 Million to invest in tiny technologies, hence the name Tiny Tech VC. Then Charlie Harris stated that most of their investments were in companies that were either currently shipping products today or would in the next year or so. Their investments would range from \$500,000 to \$1 Million or more if it were a good deal. They are also quick to differentiate themselves from the handful of other publicly traded venture firms who are structured more as incubators, such as Ideallab Inc., CMGI Inc. and Safeguard Scientifics. In the article, Tiny Tech VC called itself a classic early-stage venture investor. At the time they invested alongside Venrock Associates, Draper Fisher Jurvetson and Arch Venture Partners. The source of their deal flows, they stated, comes a lot from research universities, as was the case in their successful exit from Nanophase Technologies.

New Vice President as of 2002, Douglas Jamison has much experience in technology transfer managing University of Utah's IP (intellectual property) without formal deep technical or legal training while assessing IP in both the biological and physical sciences there. Soon afterwards, Harris and Harris invested \$1.5 million, more than they typically invest, in the second round raise for Nanosys.

Nanosys is a nanotechnology company that is more of an incubator that has no products and doesn't claim to have any time soon. It is unclear why Draper Fisher Jurvetson passed on investing in Nanosys' second round funding raise that ultimately went from \$22 Million to \$38 Million but there are many articles that argue that Nanosys was greatly overvalued. Nanosys announced in late April 2004 they were going IPO hoping to raise \$115 Million which is probably much less than its investors had originally hoped. Nanosys announced plans for an IPO end of April 2004. As of August 4, 2004, the Nanosys IPO has been pulled because market forces were unfavorable. So Harris and Harris's exit from this investment has been delayed indefinitely.

Most startup companies coming out of universities typically need funds for more research and development and don't have saleable product for at least a few years. So strangely enough, Tiny Tech VC, with their prior and current nanotech investment portfolio and staffing decisions, looks very much like an incubator pursuing an IP strategy versus a classic early-stage VC firm investing in companies with product. However, I am quick to point out that the Board of Directors is much

more impressive and suitable for investing in nanotechnology as is in most cases but typically Directors as such do not participate extensively in the everyday operations.

Noticing that their executive management team was perhaps a bit lacking in operations, formal VC and startup management experience to be able to adequately assess companies' potential to succeed, TINY brought on Daniel Leff for their new San Francisco office. Daniel Leff was formerly a senior associate with Sevin Rosen Funds and had a diverse career with Intel before entering into venture capital. Daniel Leff also has a PhD in Physical Chemistry and an MBA and also has experience with a failed startup. With Daniel Leff, I think Harris and Harris may be finally starting to get the management team mix right.

Is Harris and Harris finally getting it right but on their investors' dime? This next try is for \$31.7 Million in another public offering. Contrary to their stated investment strategy, will they be investing in more companies like Nanosys which have no products any time soon? I'm hoping better news is on the horizon which is not unlikely with the many nanotech companies out there that actually have product in the very near term versus the Nanosys's in the world.

In addition, with only 4 people on the management team not including their Controller, can they really oversee their investments and help their portfolio companies properly to succeed?

Many argue that it is not necessary for a VC management team to be capable in these areas to help their invested companies and that they should just be able to pick winners like stockbrokers. It is up to an investor in TINY to decide if the capability to help their portfolio companies is important to them before investing. Of course, many could talk about how much luck, or lack thereof, they've had in the stock market these past few years.

In addition, with both Charles Harris and Mel Melsheimer over 60 years of age, is bringing Douglas Jamison and Daniel Leff, being in their mid-30's, part of a successional planning strategy? If Charles Harris and Mel Melsheimer decide to step down any time soon, where does that leave TINY?

As an investor, one has to decide if Harris and Harris or Tiny Tech VC is going to be investing your money in nanotechnology in the best way possible to maximize returns on their investments.

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