

### China June 28, 2011

Closing Price (6/27/11):	\$14.99
12-Month Target Price:	\$24
52-Week Range:	\$5.82 - \$25.05
Market Cap (MM):	\$470.7
Shares O/S (MM):	31.4
Float (MM):	16.8
Shares Short (MM):	9.8
Avg. Vol. (000)	1,615
Book Value/Share:	\$19.60
Dividend/Yield:	NA
Risk Profile:	Medium

Maxim Group FYE: December	Revenues (\$M)	
	2011E	2012E
1Q	\$103.8A	\$122.1
2Q	\$112.2	\$134.7
3Q	\$123.0	\$140.4
4Q	\$131.6	\$150.4
<b>FY</b>	<b>\$470.7</b>	<b>\$547.6</b>

Maxim Group FYE: December	Current EPS	Current P/E
2009A: GAAP	\$0.77	19.5
2010A: GAAP	\$2.46	6.1
2011E: GAAP	\$2.14	7.0
2012E: GAAP	\$2.67	5.6

LT Earnings Growth 10% - 15%

Maxim Group FYE: December	GAAP Quarterly EPS	
	Current 2011E	Current 2012E
1Q	\$0.34A	\$0.58
2Q	\$0.48	\$0.66
3Q	\$0.63	\$0.70
4Q	\$0.68	\$0.74
<b>FY</b>	<b>\$2.14</b>	<b>\$2.67</b>

Consensus-First Call FYE: December	Quarterly EPS	
	2011E	2012E
1Q	\$0.34A	\$0.58
2Q	\$0.50	\$0.66
3Q	\$0.62	\$0.70
4Q	\$0.66	\$0.74
<b>FY</b>	<b>\$2.12</b>	<b>\$2.78</b>

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## Harbin Electric, Inc.

## Buy

(HRBN – Nasdaq – \$14.99)

### *Some explanations on HRBN's debt financing; Reiterate Buy and \$24 price target*

➤ Recently we received large number of investor inquiries about HRBN's debt financing, in particular, whether the current agreement is binding and how it is structured. After reading through the details in the SEC documents, we have concluded several important points.

➤ **The \$400M Facility Agreement dated June 9, 2011, is a binding agreement not a letter of intend.** As far as we understand, the letter of intend for the \$400M term loan was issued by China Development Bank (CDB) when HRBN's buying group, Chairman Mr. Yang, Abax Global Capital (Abax) and a few other member of HRBN's top management file a 13-D to SEC on May 2, 2011 indicating the secure of such debt financing. Since that time, specific contract terms were negotiated and the June 9 Facility Agreement was the result of the negotiation and a binding agreement of \$400M term loan. That said the utilization of the loan is subject to fulfillment of all required documents, including Corporate Documents, Legal Opinions, Finance Documents, Acquisition Agreement and Regulatory Approval.

➤ **The \$400M term loan from CDB is mainly collateralized by HRBN's equities.** As far as we understand, one important type of Finance Documents required by CDB was Security Documents, which mainly include the Borrower Share Mortgage and the Target Share Pledge. Borrow Share Mortgage is a document that the shareholders of Tech Full Electric Company Limited (Tech Full), or the acquisition vehicle, pledge their entire equity interest in Tech Full as the loan collateral; here the shareholders are mainly HRBN's Chairman Mr. Yang. Target Share Pledge is a document that Tech Full pledges its entire equity interest in HRBN after the completion of the acquisition as the loan collateral. In addition, CDB has required Mr. Yang and his wife's personal assets as extra collateral in case the assets/equity interest of HRBN are not sufficient for the loan value. This extra collateral is where the Personal Guarantee comes into play.

➤ **The \$50M term loans (\$35M and RMB100M) issued by CDB last November was to HRBN and not included in the \$400M facility.** Mr. Yang pledged 7M shares of HRBN he owns to collateralize the loan. In our view, it is more convenient for CDB to access Mr. Yang's personal assets as he is a Chinese citizen than a foreign issuer's assets as HRBN is registered in Nevada, U.S.A. Second, it is a rather standard practice for a Chinese state-owned bank like CDB to give a large discount on any assets taken as loan collateral, a reason why it seems CDB valued Mr. Yang's shares much lower than then market value.

➤ **Overall, we expect SEC is likely to approve the merger transaction in a few months.** Our Buy rating and \$24 price target is mainly based on a favorable outcome of HRBN's LBO. In our view, the wide gap between the current share price and the LBO offering price creates buying opportunities.

Exhibit 1. HRBN – Comparable Companies

Company	TKR	6/27 Price	MktCap (mm)	EPS			P/E		
				10A	11E	12E	10A	11E	12E
Harbin Electric	HRBN	\$ 14.99	\$ 470	\$ 2.46	\$ 2.14	\$ 2.67	6.1x	7.0x	5.6x
<b>Chinese Industrial Companies</b>									
China Automotive	CAAS	\$ 9.20	\$ 249	\$ 1.12	\$ 1.23	\$ 1.48	8.2x	7.5x	6.2x
A-Power	APWR	\$ 1.67	\$ 76	--	--	--	--	--	--
FushiCopperweld	FSIN	\$ 5.71	\$ 213	\$ 1.30	\$ 1.17	\$ 1.38	4.4x	4.9x	4.1x
Lihua International	LIWA	\$ 6.16	\$ 236	\$ 1.40	\$ 1.78	\$ 2.08	4.4x	3.5x	3.0x
Shengdatech	SDTH	\$ 0.68	\$ 37	\$ 0.49	\$ 0.59	\$ 0.70	1.4x	1.2x	1.0x
Wonder Auto	WATG	\$ 5.42	\$ 184	\$ 0.96	\$ 1.28	\$ 1.51	5.6x	4.2x	3.6x
ChemSpec	CPC	\$ 7.08	\$ 256	\$ 0.95	\$ 1.05	\$ 1.20	7.5x	6.7x	5.9x
China Gerui Adv. Materia	CHOP	\$ 3.71	\$ 155	\$ 1.01	\$ 1.10	\$ 1.42	3.7x	3.4x	2.6x
SORL Auto Parts	SORL	\$ 4.04	\$ 78	\$ 1.06	\$ 1.11	\$ 1.29	3.8x	3.6x	3.1x
<b>Average</b>							<b>4.9x</b>	<b>4.4x</b>	<b>3.7x</b>
<b>HK Listed China Motor Companies</b>									
Harbin Power Equipment	1133-HK	\$ 1.18	\$ 799	\$ 0.11	\$ 0.11	\$ 0.12	10.5x	11.1x	10.1x
Shanghai Electric Group	2727-HK	\$ 0.53	\$ 1,573	\$ 0.03	\$ 0.04	\$ 0.04	15.9x	14.1x	12.7x
Dongfang Electric Group	1072-HK	\$ 3.70	\$ 1,259	\$ 0.20	\$ 0.23	\$ 0.27	18.8x	16.0x	13.9x
Chongqing Machinery & E	2722-HK	\$ 0.30	\$ 328	\$ 0.03	\$ 0.03	\$ 0.04	10.3x	9.3x	8.2x
Shanghai Prime Machine	2345-HK	\$ 0.21	\$ 159	\$ 0.02	\$ 0.02	\$ 0.02	10.9x	9.8x	8.7x
<b>Average</b>							<b>13.3x</b>	<b>12.1x</b>	<b>10.7x</b>
<b>China Mainland Listed China Motor Companies</b>									
Xiangtan Electric	600416-SH	\$ 1.88	\$ 1,147	\$ 0.06	\$ 0.08	\$ 0.12	31.8x	22.6x	15.2x
Zhejiang Founder Motor	002196-SZ	\$ 2.41	\$ 261	\$ 0.04	\$ 0.05	\$ 0.14	63.4x	44.0x	17.5x
BroadOcean	002249-SZ	\$ 3.18	\$ 1,364	\$ 0.08	\$ 0.11	\$ 0.18	39.6x	28.1x	18.1x
Jiangte Electric Motor	002176-SZ	\$ 3.47	\$ 377	\$ 0.05	\$ 0.05	\$ 0.07	76.3x	71.8x	48.3x
Shanghai Electric Group	601727-SH	\$ 1.06	\$ 10,404	\$ 0.03	\$ 0.04	--	31.8x	25.8x	--
Dongfang Electric Group	600875-SH	\$ 3.90	\$ 6,489	\$ 0.20	\$ 0.24	\$ 0.29	19.8x	16.1x	13.6x
<b>Average</b>							<b>43.8x</b>	<b>27.3x</b>	<b>22.5x</b>
<b>US/International Motor Companies</b>									
Siemens	SI	\$ 132.00	\$ 114,672	\$ 6.09	\$ 11.39	\$ 10.60	21.7x	11.6x	12.4x
ABB	ABB	\$ 25.01	\$ 57,273	\$ 1.25	\$ 1.56	\$ 1.91	20.0x	16.0x	13.1x
Emerson Electric	EMR	\$ 53.87	\$ 40,573	\$ 2.69	\$ 3.27	\$ 3.87	20.0x	16.5x	13.9x
Illinois Tool Works	ITW	\$ 54.75	\$ 27,511	\$ 3.08	\$ 3.94	\$ 4.60	17.8x	13.9x	11.9x
Cummins	CMI	\$ 97.39	\$ 19,244	\$ 5.17	\$ 8.01	\$ 9.69	18.8x	12.2x	10.1x
Magna International	MGA	\$ 50.62	\$ 5,708	\$ 4.34	\$ 5.08	\$ 5.56	11.7x	10.0x	9.1x
Rockwell Automation	ROK	\$ 81.14	\$ 11,571	\$ 3.05	\$ 4.58	\$ 5.44	26.6x	17.7x	14.9x
Lear Corporation	LEA	\$ 51.07	\$ 2,384	\$ 4.42	\$ 5.23	\$ 5.97	11.6x	9.8x	8.6x
Regal Beloit	RBC	\$ 64.01	\$ 2,464	n/a	n/a	n/a	--	--	--
Smith AO	AOS	\$ 40.93	\$ 1,249	\$ 2.87	\$ 2.10	\$ 2.46	14.3x	19.5x	16.6x
Franklin Electric	FELE	\$ 45.04	\$ 1,048	\$ 1.94	\$ 2.50	\$ 2.89	23.2x	18.0x	15.6x
<b>Average</b>							<b>18.6x</b>	<b>14.5x</b>	<b>12.6x</b>

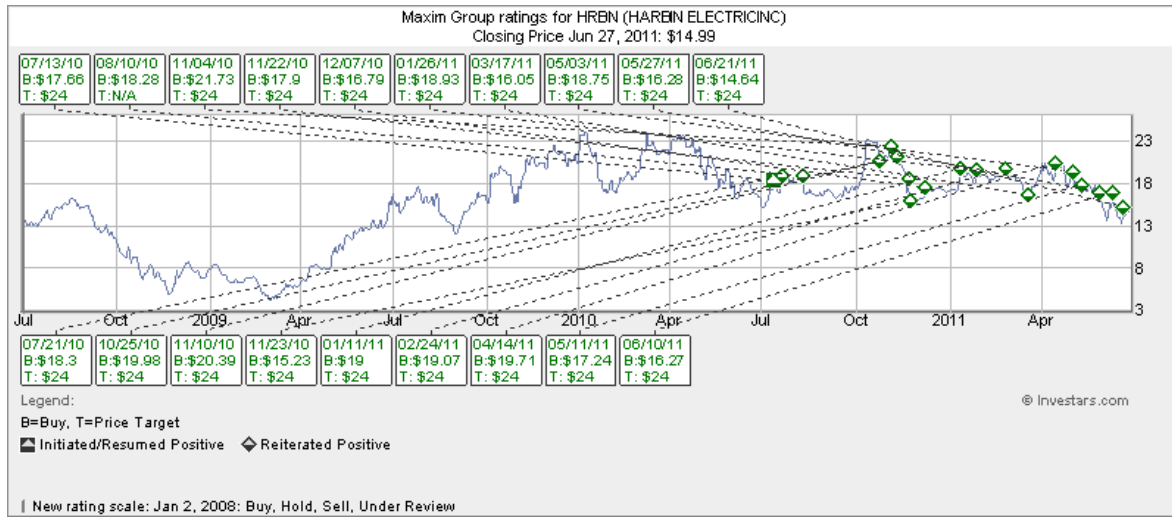
Source: Thomson One, Bloomberg and Maxim Group estimates.

Exhibit 2. HRBN-Income Statement

(In millions except per shr)	2004	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E	
	Full Yr	Full Yr	Full Yr	Full Yr	Full Yr	Full Yr	31-Mar	30-Jun	30-Sep	31-Dec	Full Yr	31-Mar	30-Jun	30-Sep	31-Dec	Full Yr	Full Yr	
<b>Revenue Drivers:</b>																		
Linear Motors				36.6	49.5	60.3	19.8	20.1	19.3	17.0	76.3	19.3	18.1	19.3	20.4	77.2	86.8	
Y/Y Growth					35%	22%	60%	74%	18%	-14%	27%	-3%	-10%	0%	20%	1%	12%	
% of Total Rev				56%	41%	27%	19%	19%	18%	16%	18%	19%	16%	16%	16%	16%	16%	
Specialty Micro-Motors				18.3	33.8	40.2	16.2	15.2	15.3	14.0	60.8	15.5	14.7	15.3	16.1	61.7	67.9	
Y/Y Growth					85%	19%	166%	78%	81%	-18%	51%	-4%	(3.0%)	0%	15%	2%	10%	
% of Total Rev				28%	28%	18%	15%	14%	14%	13%	14%	15%	13%	12%	12%	13%	12%	
Rotary Motors - Weihai				-	27.8	71.4	22.5	23.6	23.5	23.7	93.2	21.8	25.9	27.0	30.8	105.5	125.7	
Y/Y Growth						157%	107%	39%	14%	3%	31%	-3%	10%	15%	30%	13%	19%	
% of Total Rev				0%	23%	32%	21%	22%	21%	22%	22%	21%	23%	22%	23%	22%	23%	
Rotary Motors - Xi'an				-	-	\$ 44.5	45.0	44.6	48.9	49.9	188.5	46.3	51.3	58.7	62.4	218.7	258.9	
Y/Y Growth							13%	6%	11%	12%	11%	3%	15%	20%	25%	16%	18%	
% of Total Rev				0%	0%	20%	43%	42%	45%	47%	44%	45%	46%	48%	47%	46%	47%	
<b>Revenues</b>	<b>\$ 4.9</b>	<b>\$ 23.6</b>	<b>\$ 40.4</b>	<b>\$ 65.4</b>	<b>\$ 120.8</b>	<b>\$ 223.2</b>	<b>\$ 105.5</b>	<b>\$ 105.4</b>	<b>\$ 109.4</b>	<b>\$ 106.2</b>	<b>\$ 426.5</b>	<b>\$ 103.8</b>	<b>\$ 112.2</b>	<b>\$ 123.0</b>	<b>\$ 131.6</b>	<b>\$ 470.7</b>	<b>\$ 547.6</b>	
Y/Y Growth		387%	71%	62%	85%	85%	243%	175%	133%	-1%	91%	(1.6%)	6%	12%	24%	10%	16%	
Cost of sales	(2.3)	(12.1)	(20.8)	(33.0)	(73.3)	(146.6)	(69.7)	(70.1)	(75.8)	(75.1)	(290.8)	(73.6)	(80.4)	(87.6)	(94.1)	(335.7)	(391.9)	
Gross profit	2.6	11.6	19.7	32.4	47.5	76.6	35.7	35.3	33.6	31.1	135.7	30.2	31.9	35.4	37.5	135.0	155.7	
Y/Y Growth		350%	70%	65%	46%	61%	227%	175%	100%	-14%	77%	(15%)	-10%	5%	21%	-1%	15%	
<b>Gross Margin</b>	<b>52.9%</b>	<b>48.9%</b>	<b>48.6%</b>	<b>49.6%</b>	<b>39.3%</b>	<b>34.3%</b>	<b>33.9%</b>	<b>33.5%</b>	<b>30.7%</b>	<b>29.2%</b>	<b>31.8%</b>	<b>29.1%</b>	<b>28.4%</b>	<b>28.8%</b>	<b>28.5%</b>	<b>28.7%</b>	<b>28.4%</b>	
R&D	(0.1)	(0.3)	(1.5)	(1.1)	(1.2)	(2.1)	(0.6)	(0.4)	(1.7)	(0.8)	(3.4)	(3.9)	(1.3)	(1.2)	(1.3)	(7.8)	(4.4)	
As % of Rev	1.9%	1.4%	3.7%	1.6%	1.0%	0.9%	0.6%	0.3%	1.5%	0.8%	0.8%	3.7%	1.2%	1.0%	1.0%	1.7%	0.8%	
G&A	(0.2)	(1.3)	(4.2)	(7.7)	(11.9)	(18.7)	(7.4)	(6.9)	(10.1)	(14.6)	(39.0)	(10.1)	(10.3)	(9.0)	(9.5)	(38.9)	(41.3)	
As % of Rev	3.8%	5.3%	10.3%	11.7%	9.9%	8.4%	7.0%	6.5%	9.2%	13.8%	9.1%	9.7%	9.2%	7.3%	7.2%	8.3%	7.5%	
Total operating expenses	(0.3)	(1.6)	(5.7)	(8.7)	(13.1)	(20.8)	(8.0)	(7.2)	(11.7)	(15.4)	(42.4)	(14.0)	(11.7)	(10.2)	(10.8)	(46.6)	(45.7)	
<b>Income from operations</b>	<b>2.3</b>	<b>10.0</b>	<b>14.0</b>	<b>23.7</b>	<b>34.4</b>	<b>55.8</b>	<b>27.7</b>	<b>28.1</b>	<b>21.9</b>	<b>15.6</b>	<b>93.3</b>	<b>16.3</b>	<b>20.2</b>	<b>25.2</b>	<b>26.7</b>	<b>88.4</b>	<b>109.9</b>	
Y/Y Growth					45%	62%	246%	219%	68%	(39.7%)	67%	(41%)	(28%)	15%	71%	-5%	24%	
<b>Operating Margin</b>	<b>47.1%</b>	<b>42.1%</b>	<b>34.6%</b>	<b>36.3%</b>	<b>28.5%</b>	<b>25.0%</b>	<b>26.3%</b>	<b>26.6%</b>	<b>20.0%</b>	<b>14.7%</b>	<b>21.9%</b>	<b>15.7%</b>	<b>18.0%</b>	<b>20.5%</b>	<b>20.3%</b>	<b>18.8%</b>	<b>20.1%</b>	
Other income (expenses), net	-	-	0.0	(0.2)	1.6	5.5	1.1	1.3	0.7	2.3	5.5	1.1	1.2	1.3	1.4	5.1	5.5	
Interest expense, net	0.0	0.0	(2.5)	(6.6)	(6.1)	(12.3)	(1.6)	(1.0)	(1.1)	(0.8)	(4.6)	(1.9)	(1.9)	(1.9)	(1.9)	(7.7)	(7.7)	
Total other income (expense)	0.0	0.0	4.4	(6.8)	(4.5)	(24.9)	(0.8)	1.4	(0.7)	0.9	0.8	(1.2)	(1.2)	(1.0)	(0.9)	(4.4)	(4.0)	
Income before income taxes	2.3	10.0	18.4	16.9	29.9	30.9	27.0	29.5	21.2	16.6	94.2	15.0	19.1	24.1	25.8	84.0	106.0	
Provision for income taxes	-	-	-	-	(4.5)	(7.8)	(4.1)	(3.8)	(3.3)	(3.8)	(14.9)	(4.2)	(3.8)	(4.3)	(4.4)	(16.7)	(21.2)	
Tax Rate	0.0%	0.0%	0.0%	0.0%	15.1%	25.2%	15.1%	12.9%	15.6%	22.7%	15.8%	27.9%	20.0%	18.0%	17.0%	19.9%	20.0%	
Net income before noncontrolling intere	2.3	10.0	18.4	16.9	25.4	23.1	22.9	25.7	17.9	12.8	79.2	10.8	15.2	19.8	21.4	67.3	84.8	
Minority interests	-	-	-	-	(3.5)	(3.5)	(2.4)	(0.0)	(0.0)	(0.1)	(2.4)	(0.0)	-	-	-	(0.0)	-	
As % of net income	0.0%	0.0%	0.0%	0.0%	0.0%	11.3%	8.7%	0.0%	0.1%	0.4%	2.6%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Net income</b>	<b>2.3</b>	<b>10.0</b>	<b>18.4</b>	<b>16.9</b>	<b>25.4</b>	<b>19.6</b>	<b>20.6</b>	<b>25.7</b>	<b>17.9</b>	<b>12.7</b>	<b>76.8</b>	<b>10.8</b>	<b>15.2</b>	<b>19.8</b>	<b>21.4</b>	<b>67.3</b>	<b>84.8</b>	
Y/Y Growth		333%	84%	(8%)	50%	(23%)	137%	NM	NM	-31%	291%	(47.4%)	(40.6%)	11%	69%	-12%	26%	
<b>Net Margin</b>	<b>47.6%</b>	<b>42.3%</b>	<b>45.6%</b>	<b>25.8%</b>	<b>21.0%</b>	<b>8.8%</b>	<b>19.5%</b>	<b>24.4%</b>	<b>16.3%</b>	<b>12.0%</b>	<b>18.0%</b>	<b>10.4%</b>	<b>13.6%</b>	<b>16.1%</b>	<b>16.3%</b>	<b>14.3%</b>	<b>15.5%</b>	
Foreign currency translation adjustmen	-	0.5	1.0	7.2	9.5	(0.1)	0.1	1.3	5.6	6.7	13.7	2.4	-	-	-	-	-	
Comprehensive income	2.2	11.1	19.5	13.2	40.0	16.3	20.6	27.0	23.5	19.4	90.5	13.3	15.2	19.8	21.4	67.3	84.8	
Weighted average shares outstanding																		
Basic	6.4	14.9	16.6	17.1	20.2	25.6	31.1	31.1	31.1	31.1	31.1	31.3	31.3	31.4	31.4	31.3	31.6	
Diluted	6.4	15.1	18.3	18.6	21.3	25.7	31.4	31.3	31.3	31.3	31.3	31.4	31.4	31.5	31.6	31.5	31.7	
EPS (to controlling interest)																		
Basic	\$ 0.36	\$ 0.67	\$ 1.11	\$ 0.99	\$ 1.25	\$ 0.77	\$ 0.66	\$ 0.83	\$ 0.57	\$ 0.44	\$ 2.47	\$ 0.35	\$ 0.49	\$ 0.63	\$ 0.68	\$ 2.15	\$ 2.68	
Diluted	\$ 0.36	\$ 0.66	\$ 1.01	\$ 0.91	\$ 1.19	\$ 0.77	\$ 0.66	\$ 0.82	\$ 0.57	\$ 0.44	\$ 2.46	\$ 0.34	\$ 0.48	\$ 0.63	\$ 0.68	\$ 2.14	\$ 2.67	
Y/Y Growth		82%	53%	(10%)	31%	(35.7%)	68%	NM	NM	-25%	221%	(47.4%)	(40.8%)	10%	54%	-13%	25%	
D&A	0.1	0.4	2.2	6.2	7.7	17.0	3.3	2.8	3.1	2.3	11.5	2.9	2.9	2.9	2.9	11.5	14.7	
Share-based compensation	-	-	0.9	1.6	1.8	1.2	0.3	0.3	0.3	0.2	1.0	0.1	0.1	0.1	0.1	0.4	1.3	
<b>EBITDA</b>	<b>2.4</b>	<b>10.3</b>	<b>17.1</b>	<b>31.4</b>	<b>43.8</b>	<b>74.1</b>	<b>31.3</b>	<b>31.1</b>	<b>25.2</b>	<b>18.2</b>	<b>105.8</b>	<b>19.3</b>	<b>23.2</b>	<b>28.2</b>	<b>29.7</b>	<b>100.4</b>	<b>125.9</b>	
EBITDA margin	48.6%	43.7%	42.3%	48.1%	36.3%	33.2%					24.8%					21.3%	23.0%	
Exchange Rate (RMB/US\$)	8.28	8.07	7.80	7.30	6.83	6.84	6.84	6.84	6.84	6.60	6.76	6.57	6.54	6.51	6.48	6.48	6.36	

Source: Company reports and Maxim Group estimates.

**DISCLOSURES**



Source: Investars.com

Maxim Group LLC Stock Rating System		As of: 6/28/2011	
Expected Performance*		% of Coverage Universe with Rating	% of Ratings that Firm received with Banking fees
<b>Buy</b>	Expected total return of 15% or more over next 12 months	65.8%	24.0%
<b>Hold</b>	Expected total return of plus or minus 14% over next 12 months	26.3%	0.0%
<b>Sell</b>	Expected total negative return of at least 15% over next 12 months	7.9%	0.0%

\* Relative to Nasdaq Composite.  
An Under Review (UR) rating represents a stock that the Firm has temporarily placed under review due to a material change.

**Maxim Group makes a market in Harbin Electric, Inc.**

**Maxim Group expects to receive or intends to seek compensation for investment banking services from Harbin Electric, Inc. in the next 3 months.**

I, **Echo He**, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm’s total revenues, a portion of which is generated by investment banking activities.

**Valuation Methods:** One or more of the following valuation methods are used by Maxim Group analysts in making a ratings or price projection: Analysis of companies P/E ratio, price/book ratio, earnings expectations or sales growth as they relate within an industry group or to the broader market, enterprise value/sales, Individual sector analysis, sum of the parts analysis and discounted cash flow.

**Price Target Risks:** Investment risks associated with the achievement of the price target include, but are not limited to, the company’s failure to achieve our earnings and revenue estimates, unforeseen macroeconomic

and/or industry events that adversely impact demand for the company's products and services, product obsolescence, the company's ability to recruit and retain competent personnel, changes in investor sentiment regarding the specific company or industry, changing competitive pressures and adverse market conditions. For a complete discussion of the risk factors that could affect the market price of the company's shares, refer to the most recent form 10-Q or 10-K that the company has filed with the SEC.

**Investment Risks:** Aside from general market and other economic risks, risks particular to our **Harbin Electric, Inc.** rating include: (1) Failure of the proposed LBO to be completed; (2) Slowdown of Chinese economy; (3) Raw material price increases; (4) High competition in industrial motor market; (5) Difficulties of developing linear motor market; and (6) Potential equity issuance.

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## **RISK RATINGS**

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Risk ratings take into account both fundamental criteria and price volatility.

**Speculative –**

**Fundamental Criteria:** This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry.

**Price Volatility:** Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless.

Speculative stocks may not be suitable for a significant class of individual investors.

**High – Fundamental Criteria:** This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry.

**Price volatility:** The price volatility of companies falling within this category is expected to be above the industry.

High-risk stocks may not be suitable for a significant class of individual investors.

**Medium –**

**Fundamental Criteria:** This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid.

Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

**Low –**

**Fundamental Criteria:** This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid.

Accordingly, both price volatility and fundamental risk are expected to be below the industry.

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