

THE SCHMIDT FAMILY FOUNDATION

Financial Statements

December 31, 2006

**Together with
Independent Auditors' Report**

THE SCHMIDT FAMILY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Schmidt Family Foundation

We have audited the accompanying statement of financial position of The Schmidt Family Foundation (the "Foundation"), a California non-public benefit corporation, as of December 31, 2006, and the related statements of activities and changes in net assets and of cash flows for the initial period January 24, 2006 through December 31, 2006. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Foundation at December 31, 2006, and the results of its activities and changes in net assets and its cash flows for the initial period January 24, 2006 through December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Ireland SanFilippo LLP

San Jose, California
August 29, 2007

THE SCHMIDT FAMILY FOUNDATION

Statement of Financial Position

December 31, 2006

ASSETS

Cash and cash equivalents	\$	6,541,131
Investments		72,986,254
Unsettled stock proceeds		<u>5,353,300</u>
Total assets	\$	<u><u>84,880,685</u></u>

LIABILITIES AND NET ASSETS

Accrued liabilities	\$	616,482
Grants payable		<u>5,545,722</u>
Total liabilities		6,162,204
Net assets - unrestricted		<u>78,718,481</u>
Total liabilities and net assets	\$	<u><u>84,880,685</u></u>

The accompanying notes are an integral part of these financial statements

THE SCHMIDT FAMILY FOUNDATION

Statement of Activities and Changes in Net Assets

For the Initial Period January 24, 2006 through December 31, 2006

Unrestricted revenues and other support:	
Contributions	\$ 82,230,991
Net realized and unrealized gains on investments	4,112,145
Dividend and interest income	1,017,296
Contributed services and facilities	<u>27,399</u>
Total revenue and support	<u>87,387,831</u>
Investment related expenses	(77,572)
Federal excise tax	<u>(1,742,422)</u>
Net revenue and support	<u>85,567,837</u>
Expenses:	
Program services - grants awarded	6,334,422
Program services - other	397,122
Management and general - contributed services and facilities	27,399
Management and general - other	<u>90,413</u>
Total expenses	<u>6,849,356</u>
Increase in net assets	78,718,481
Net assets at inception	<u>-</u>
Net assets at end of year	<u><u>\$ 78,718,481</u></u>

The accompanying notes are an integral part of these financial statements

THE SCHMIDT FAMILY FOUNDATION

Statement of Cash Flows

For the Initial Period January 24, 2006 through December 31, 2006

Cash flows from operating activities:	
Increase in net assets	\$ 78,718,481
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Net realized and unrealized gains on investments	(4,078,572)
Contributed investments	(82,230,991)
Unsettled stock proceeds	(5,353,300)
Accrued liabilities	616,482
Grants payable	<u>5,545,722</u>
Net cash used by operating activities	<u>(6,782,178)</u>
Cash flows from investing activities:	
Proceeds from sales of investments	85,554,228
Acquisition of investments	<u>(72,230,918)</u>
Net cash provided by investing activities	<u>13,323,309</u>
Increase in cash and cash equivalents	6,541,131
Cash and cash equivalents, at inception	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,541,131</u></u>

The accompanying notes are an integral part of these financial statements

THE SCHMIDT FAMILY FOUNDATION

Notes to Financial Statements

December 31, 2006

Note 1 - Organization and operations:

The Schmidt Family Foundation (the "Foundation") was incorporated on January 24, 2006 as a non-profit public benefit corporation that supports activities for charitable, scientific, literary, and educational purposes. Currently, the Foundation primarily supports their program, the 11th Hour Project, which addresses environmental remediation issues. The Foundation may work with other organizations that have missions that are similar to that of the 11th Hour Project. The Foundation's support and revenue comes primarily through contributions and investments.

Note 2 - Summary of significant accounting policies:

Basis of financial presentation - The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Foundation accrues for accounting, tax, and audit fees prior to services being rendered.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to permanently restricted, temporarily restricted, and unrestricted net assets with the change in each of these classes of net assets to be presented in the statement of activities. Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Foundation considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

THE SCHMIDT FAMILY FOUNDATION

Notes to Financial Statements

December 31, 2006

Note 2 - Summary of significant accounting policies (continued):

Concentration of credit risk - Financial instruments, which potentially subject the Foundation to credit risk, consist primarily of cash, cash equivalents, and investments. The Foundation maintains cash and cash equivalents with a major financial institution and such amounts might exceed FDIC limits.

Investments

Publicly traded - The Foundation invests in marketable securities and money market funds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Contributions of public stock are recorded at quoted market prices at the date of donation. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

Private equity funds - To the extent that these funds invest in publicly traded investments, these are included at quoted market prices as described above. The remaining investments are carried at estimated fair values as determined by the investment manager of these securities after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the Foundation's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, however, these estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. The Foundation may also have risk associated with its concentration of investments in certain geographic areas and certain industries.

Fair value of financial instruments - Financial instruments included in the Foundation's Statement of Financial Position for at December 31, 2006 include cash and cash equivalents, investments, and accrued liabilities. For cash and cash equivalents and accrued liabilities, the carrying amounts approximate fair value due to their short maturity. Investments are reflected in the accompanying Statement of Financial Position at their estimated fair values using methodologies described above.

THE SCHMIDT FAMILY FOUNDATION

Notes to Financial Statements

December 31, 2006

Note 2 - Summary of significant accounting policies (continued):

Grants payable - Grants payable are associated with multi-year grants from the Foundation. Grants that are expected to be paid after one year are evaluated at a discount rate of 4.73%. Such present value reserves are recorded only if material to the financial statements.

Revenue recognition - The Foundation's revenue recognition policy is in accordance with Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made." Contributions are recognized as revenue when received or unconditionally promised. The Foundation reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Contributed services and facilities - Contributed services and facilities are recognized in accordance with SFAS 116. Significant donated property and equipment are recorded at estimated fair value at the date of receipt. Contributed services, which require a specialized skill and which the Foundation would have paid for if not contributed, have been recorded at their estimated fair market value of \$14,732 for the initial period January 24, 2006 through December 31, 2006. Contributed facilities have been recorded at their estimated fair market value of \$12,667 for the initial period January 24, 2006 through December 31, 2006.

Recent accounting pronouncements

Accounting for Uncertainty in Income Taxes - In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which prescribes a comprehensive model for how an organization should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on a tax return. FIN 48 is effective for fiscal periods beginning on or after December 15, 2006. The Foundation is currently in the process of evaluating the effect of FIN 48 on its Financial Statements.

Fair Value Measurements - In September 2006, FASB issued No. 157, "Fair Value Measurements", (effective beginning after November 15, 2007). This new standard provides guidance for measuring fair value of assets and liabilities. The Foundation does not anticipate that the adoption of FAS No. 157 will have a material impact on the Foundation's financial position, results of operations, or cash flows.

THE SCHMIDT FAMILY FOUNDATION

Notes to Financial Statements

December 31, 2006

Note 2 - Summary of significant accounting policies (continued):

Recent accounting pronouncements (continued)

In February 2007, FASB issued No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115", (effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Foundation is currently evaluating what effect, if any, the adoption of SFAS No. 157 will have on the Foundation's Financial Statements.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Foundation's financial statements upon adoption.

Note 3 - Investments:

The fair value of the Foundation's investments at December 31, 2006 is as follows:

Equity securities	\$ 72,764,628
Alternative investment	<u>221,626</u>
Total	<u>\$ 72,986,254</u>

The following schedule summarizes the investment returns for the initial period January 24, 2006 through December 31, 2006:

Net realized and unrealized gains, marketable investments	\$ 4,140,519
Net realized and unrealized losses, alternative investment	<u>(28,374)</u>
	4,112,145
Interest income	38,820
Dividend income	978,475
Investment related expenses	<u>(77,572)</u>
Total	<u>\$ 5,051,868</u>

The Foundation has commitments under a venture limited liability partnership agreement at December 31, 2006 to make additional capital contributions of approximately \$4,750,000.

THE SCHMIDT FAMILY FOUNDATION

Notes to Financial Statements

December 31, 2006

Note 4 - Grants payable:

For the initial period January 24, 2006 through December 31, 2006, the Foundation has made two multi-year grants. Grants are recorded after discounting the future cash flows to present value using a discount rate of 4.73%. The maturities of these promises are expected to be as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2007	\$ 1,500,000
2008	1,500,000
2009	1,000,000
2010	1,000,000
2011	1,000,000
	<u>6,000,000</u>
Less: discount for present value	<u>(454,278)</u>
Total	<u>\$ 5,545,722</u>

Note 5 - Related party transactions:

The Foundation is being funded by stock donations from Board members who are founders and officers of the Foundation. For the initial period January 24, 2006 through December 31, 2006, publicly traded stock valued at \$82,230,991 was donated by Board members. In addition, for the initial period January 24, 2006 through December 31, 2006, professional accounting services of approximately \$2,000 were contributed to the Foundation by a Board member for services which the Foundation would have paid for if it had not been contributed.

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Notes to Financial Statements

December 31, 2006

Note 6 - Federal excise taxes and distribution requirements:

Federal excise taxes - The Foundation is a private foundation and qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Foundation is exempt from Federal income taxes and from California franchise taxes under Revenue and Taxation Code Section 23701(d). However, private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding unrealized gains, as defined. The Foundation was subject to the 2% rate for the initial period January 24, 2006 through December 31, 2006 because tax laws preclude the option to achieve a 1% tax rate in the year of formation. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Foundation.

The provision for Federal excise taxes for the initial period January 24, 2006 through December 31, 2006 was as follows:

Current	\$	1,662,117
Deferred		<u>80,305</u>
Total	\$	<u><u>1,742,422</u></u>

Distribution requirements - The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute within one year after the end of each fiscal year 5% of the fair value of its investment assets, as defined. The investments includable for the 5% distribution requirement are based on average monthly balance and are exclusive of those investments deemed to be held for charitable activities. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. For the initial period January 24, 2006 through December 31, 2006, the Foundation was exempt from this distribution requirement based on the date of inception and their first year of operation.