

THE SCHMIDT FAMILY FOUNDATION
AND SUBSIDIARY

Consolidated Financial Statements
December 31, 2007 and 2006

Together with
Independent Auditors' Report

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

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December 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Schmidt Family Foundation and Subsidiary

We have audited the accompanying consolidated statement of financial position of The Schmidt Family Foundation and its Subsidiary (the "Foundation", a California public benefit corporation), as of December 31, 2007 and 2006, and the related consolidated statements of activities and changes in net assets and cash flows for the twelve-month and eleven-month periods then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the investment funds holding alternative investments as described in Note 3, approximating \$11,361,000 and \$222,000 of the Foundation's investment assets as of December 31, 2007 and 2006, and revenue (loss), net of management fees, from alternative investments approximating \$478,000 and (\$28,000), respectively, of the Foundation's support and revenue (loss). These investments were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amount of alternative investments included in the Foundation's consolidated financial statements, is based solely on the reports of other auditors.

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 consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits, and the reports of other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2007 and 2006, and the related consolidated statements of activities and changes in net assets and its cash flows for the twelve-month and eleven-month periods then ended in conformity with accounting principles generally accepted in the United States of America.



San Jose, California
September 30, 2008

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY
Consolidated Statement of Financial Position

ASSETS

	December 31,	
	2007	2006
Cash and cash equivalents	\$ 3,725,155	\$ 6,541,131
Investments	214,439,482	72,986,254
Investment related receivables	1,284,928	5,353,300
Investment related prepaids	129,879	-
Deposits	600	-
Property and equipment	3,770,403	-
Total assets	\$ 223,350,447	\$ 84,880,685

LIABILITIES AND NET ASSETS

Accounts payable	\$ 172,564	\$ -
Other current liabilities	5,070	-
Accrued liabilities	97,563	616,482
Grants payable, net	5,366,275	5,545,722
Total liabilities	5,641,472	6,162,204
Net assets - unrestricted	217,708,975	78,718,481
Total liabilities and net assets	\$ 223,350,447	\$ 84,880,685

The accompanying notes are an integral part of these consolidated financial statements

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Cash Flows

	For the Year Ended December 31, <u>2007</u>	For the Eleven Months Ended December 31, <u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 138,990,494	\$ 78,718,481
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized gains on investments	(1,384,410)	(4,112,146)
Contributed investments	(143,469,165)	(82,230,991)
Changes in operating assets and liabilities:		
Investment related receivables	4,068,372	(5,353,300)
Prepaid expenses	(129,879)	-
Deposits	(600)	-
Accounts payable	172,564	-
Other current liabilities	5,070	-
Accrued liabilities	(518,919)	616,482
Grants payable, net	(179,447)	5,545,722
Net cash used by operating activities	<u>(2,445,920)</u>	<u>(6,815,752)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(3,770,403)	-
Purchases of investments	150,926,199	85,587,801
Proceeds from sale of investments	<u>(147,525,852)</u>	<u>(72,230,918)</u>
Net cash provided (used) by investing activities	<u>(370,056)</u>	<u>13,356,883</u>
Increase (decrease) in cash and cash equivalents	(2,815,976)	6,541,131
Cash and cash equivalents, beginning of period	<u>6,541,131</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 3,725,155</u>	<u>\$ 6,541,131</u>

The accompanying notes are an integral part of these consolidated financial statements

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

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. The Foundation’s mission is to advance the creation of an increasingly intelligent relationship between human activity and the use of the world’s natural resources. The Foundation’s support and revenue comes primarily through contributions and investments.

Greenhound, LLC (“Greenhound”), a wholly owned subsidiary of the Foundation, was formed on September 26, 2007 as a limited liability company to further the Foundation’s mission by working with the town of Nantucket and the regional transit authority to help develop a better model for the island’s seasonal bus system. The goal is to reduce traffic congestion in the historic downtown streets and offers islanders and visitors an attractive mass transit option that the Foundation hopes will become a zero-emission operation.

The Foundation’s key program, the 11th Hour Project, which was established since the Foundation’s formation, addresses environmental remediation issues and continues its mission of promoting high-quality information about climate change. The Foundation and the 11th Hour Project work with other organizations to forge new alliances, broaden the awareness around global warming, and help find new audiences for this urgent message solving the climate problem.

Note 2 - Summary of significant accounting policies:

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Foundation and its subsidiary, Greenhound, LLC, after elimination of intercompany accounts and transactions.

Basis of accounting - The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation – Consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) 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 consolidated financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, and unrestricted net assets. Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services. As of December 31, 2007 and 2006, all of the Foundation’s net assets were unrestricted.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

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

Use of estimates - The preparation of consolidated 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 consolidated 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.

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 of mutual funds are calculated on an adjusted cost basis. The adjusted cost, as a result of reinvested dividends, is the estimated fair value of the mutual fund at the beginning of the year or the cost if purchased during the year. Realized gains and losses resulting from the sales or maturities of debt and other marketable securities are calculated on an actual cost basis.

Private equity funds - To the extent that these funds invest in publicly traded investments, they 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.

Investment related receivables - Investment related receivables include stock sales settlements, interest receivable from bonds, and other dividend and interest earnings outstanding at year-end.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

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

Property and equipment, net - Purchased property and equipment are stated at cost. Acquisitions of property and equipment in excess of \$1,000 are capitalized. Significant donated property and equipment is recorded at fair value at the date of receipt. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is computed using the modified accelerated cost recovery system ("MACRS") over the estimated useful lives of the assets ranging from three to thirty-nine years. Leasehold improvements are amortized using the straight-line method over the lesser of the assets' estimated useful lives or the term of the applicable lease. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Grants payable, net - Grants payable are associated with multi-year grants from the Foundation. Grants that are expected to be paid after one year are discounted at a reasonable rate of interest as determined in the year the grant was pledged and are stated at their net present value. Such present value reserves are recorded only if material to the consolidated financial statements.

Revenue recognition - The Foundation's revenue recognition policy is in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 requires that contributions received, including unconditional promises to give be recognized as revenue at their fair value in the period the contribution or pledge is received. Contributions are recognized as revenue when received or un-conditionally 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.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

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

Contributed services, facilities, and other – Contributed services, facilities, and travel related expenses are recognized in accordance with SFAS No. 116. Significant donated property and equipment are recorded at estimated fair value at the date of receipt. Contributed management and general accounting 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 \$22,500 and \$14,732 for the years ended December 31, 2007 and 2006, respectively. Contributed facilities have been recorded at their estimated fair market value of \$24,000 and \$12,667 for the years ended December 31, 2007 and 2006, respectively. Contributed travel related expenses, used for program related services, have been recorded at their estimated fair market value of \$36,494 for the year ended December 31, 2007. Contributed facilities and travel related expenses are from a related party. Contributed services for 2006 are also from a related party.

Fair value of financial instruments - Financial instruments included in the Foundation's Consolidated Statement of Financial Position as of December 31, 2007 and 2006 include cash and cash equivalents, investments, investment related receivables, and accrued liabilities. For cash and cash equivalents, investment related receivables, and accrued liabilities, the carrying amounts approximate fair value due to their short maturity. Investments are reflected in the accompanying Consolidated Statement of Financial Position at their estimated fair values using methodologies described above.

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the Consolidated Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents, investments, and investment related receivables. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. At times, such amounts might exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Foundation's investments and investment related receivables have been placed with high quality financial institutions. The Foundation monitors these investments and has not experienced significant credit losses.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

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

Recent accounting pronouncements -

Accounting for Uncertainty in Income Taxes - In June 2006, the FASB issued Financial Interpretation Number 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"), 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, 2007. The Foundation is currently in the process of evaluating the effect of FIN 48 on its Consolidated Financial Statements.

Fair Value Measurements - In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS No. 157 does not expand or require any new fair value measures and is effective for fiscal periods beginning after November 15, 2008. The Foundation does not anticipate that the adoption of FAS No. 157 will have a material impact on the Foundation's consolidated financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS 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 does not anticipate that the adoption of SFAS No. 159 will have a material impact on the Foundation's consolidated financial position, results of operations, or cash flows.

Hierarchy of Generally Accepted Accounting Principles - In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, effective 60 days following the SECs approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States (the GAAP hierarchy). The Foundation does not anticipate that the adoption of SFAS No. 162 will result in a change in the current practice of preparing the Foundation's consolidated financial position, results of operations, or cash flows.

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 consolidated financial statements upon adoption.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

Note 3 - Investments:

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

	<u>2007</u>	<u>2006</u>
Equity securities	\$ 203,078,792	\$ 72,764,628
Private equities, as audited by other auditors	<u>11,360,690</u>	<u>221,626</u>
Total	<u>\$ 214,439,482</u>	<u>\$ 72,986,254</u>

The following schedule summarizes the investment returns for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Net realized and unrealized gains, marketable investments	\$ 906,721	\$ 4,140,519
Net realized and unrealized losses, alternative investments, as audited by other auditors	<u>477,689</u>	<u>(28,373)</u>
Total net realized and unrealized gains	<u>1,384,410</u>	<u>4,112,146</u>
Dividend income	3,725,381	978,475
Interest income	<u>742,127</u>	<u>38,820</u>
Total dividend and interest income	<u>4,467,508</u>	<u>1,017,295</u>
Less: investment related expenses	<u>(186,768)</u>	<u>(77,572)</u>
Net investment returns	<u>\$ 5,665,150</u>	<u>\$ 5,051,869</u>

The Foundation has a commitment under a venture limited liability partnership agreement to make additional capital contributions of approximately \$4,000,000 and \$4,750,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007, the Foundation had investments in the following stocks and mutual funds in excess of 10% of the total investment portfolio:

Google Class A Stock	\$ 23,957,708	12%
Dodge and Cox International Stock Mutual Fund	26,650,169	13%
Vanguard Total Stock Market Mutual Fund	24,175,646	12%
Ishares Treasury Index Mutual Fund	22,746,083	11%

At December 31, 2006, the Foundation did not have investments in stocks or mutual funds in excess of 10% of the total investment portfolio.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

Note 4 - Property and equipment:

Property and equipment consist of the following at December 31, 2007:

Land	\$	3,063,339
Buildings		<u>707,064</u>
Property and equipment	\$	<u><u>3,770,403</u></u>

As of December 31, 2007, the Foundation has not placed the building in service. The Foundation had no property and equipment at December 31, 2006.

Note 5 - Grants payable, net:

For the years ended December 31, 2007 and 2006, the Foundation has made various multi-year grants in the net amount of \$5,366,275 and \$5,545,722, respectively. Grants are recorded after discounting the future cash flows to present value using a discount rate of 4.13% and 4.73% for the years ended December 31, 2007 and 2006, respectively. For the year ended December 31, 2006, the Foundation made a five-year grant, which totaled \$5,000,000, to a related party organization where the President of the Foundation is also a member of the grantee's Board of Directors..

The maturities of these grants are expected to be as follows:

Years Ending December 31,		Amount
2008	\$	2,550,000
2009		1,050,000
2010		1,000,000
2011		<u>1,000,000</u>
		5,600,000
Less: discount for present value		<u>(233,725)</u>
Total	\$	<u><u>5,366,275</u></u>

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

Note 6 - Related party transactions:

The Foundation is being funded by stock donations from the founders of the Foundation. For the years ended December 31, 2007 and 2006, publicly traded stock valued at approximately \$143,500,000 and \$82,200,000 was donated by the founders. In addition, for the year ended December 31, 2007, contributed facilities and travel related expenses of approximately \$60,500 were contributed to the Foundation by the founders.

During 2007, the Foundation entered into a one-year agreement for professional services with an organization where one of the Foundation's Board of Directors has an ownership interest. For the year ended December 31, 2007, the Foundation made payments to this related organization of approximately \$189,000 for accounting, investment, human resources and information technology services. For the year ended December 31, 2006, professional accounting services of approximately \$2,000 were contributed to the Foundation by this related organization; the contributed revenues and the related expenses were recorded in the consolidated financial statements.

As discussed in Note 5, during 2006, the Foundation made a five-year grant to an organization, where the President of the Foundation is also a board member of the grantee organization. The Foundation has agreed to pay this grant in annual amounts of \$1,000,000 through 2011. The Foundation did not make additional grants to related organizations during the year ended December 31, 2007. The related organization grant payable for the years ended December 31, 2007 and 2006 is \$4,000,000 and \$5,000,000, respectively.

For the year ended December 31, 2007, the Foundation contributed \$4,500,000 to a donor advised fund, which was created by the Foundation founders. The Foundation did not make a contribution to this fund during the year ending December 31, 2006.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

Note 7 - 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 qualified for the 1% rate for the year ended December 31, 2007. 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 years ended December 31 were as follows:

	2007	2006
Current	\$ 1,501,834	\$ 1,662,117
Deferred	<u>(15,023)</u>	<u>80,305</u>
Total	<u>\$ 1,486,811</u>	<u>\$ 1,742,422</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. The Foundation has complied with the distribution requirements for the year ended December 31, 2007. 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.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007

Note 8 - Subsequent events:

In February 2008, the Foundation leased a property in Palo Alto for their office. The lease is a 5 year lease from February 2008 to January 2012, which requires annual payments of approximately \$36,000 with a four percent increase each year.

Subsequent to December 31, 2007, the U.S. stock market suffered the biggest drop since 1987; Asian and European equity share prices also plunged after the drastic declines in the U.S. The Foundation's portfolio has experienced significant unrealized losses. These conditions, though expected to be temporary, will likely result in less supporting revenue from investments, lower average asset values of the Foundation's portfolio, and smaller amounts of the required charitable grants for the following year.