



409A Valuation Practice

ThoughtStorm Strategic Capital (TSC) has been helping companies increase free cash flow for nearly a decade, with over 40 years of combined experience in leadership, management, and business. By linking financial and operating data, TSC uses its proprietary algorithms to advise boards and C-level executives.

TSC has experience at all stages of corporate existence: from business plans for preincorporation startups to venture financings, to M&A, public offerings, and strategic alliances, to restructurings and liquidations. TSC has advised founders, CEOs, and boards; acquirers and targets; and creditors and debtors.

TSC's *integrated analysis approach* sheds light on risks inherent in a company's business model, and its tools assist executives in refining strategic and tactical directions.

409A: Important Issues

Internal Revenue Code Section 409A mandates drastic penalties for issuing deferred compensation securities below fair market value. Our independent analysis provides you with a well-reasoned, defensible, industry-standard valuation, which is designed to meet the safe harbor provisions of 409A.

Our familiarity with the often-complex terms of securities such as preferred stock, options, and warrants enable us to more accurately and more rapidly assess the effects of those structures on the valuation of the common stock.

409A valuations are more complex than traditional valuations. Not only must the company as a whole be valued but the value for a specific security, such as stock options, must also be determined. We can stand up in front of your leadership, board, investors, employees, outside counsel, or auditors as needed to explain the valuation and its implications.

Senior Leadership

Michael A. Princi, *Managing Director*, has directly led over 500 valuations of public and private companies, spanning dozens of industries. He regularly discusses issues arising from corporate valuations with Fortune 500 senior executives. Michael was an Infantry officer in the United States Army and is a graduate of the Airborne and Ranger schools. Michael earned an M.B.A. from The Johnson School at Cornell University and a B.S. in Operations Research from the United States Military Academy at West Point.

Our Approach to Valuation

Our approach evolved from our experiences as owners of, investors in, and advisors to businesses. We use Free Cash Flow analysis. We bring technical competence from hundreds of engagements and a unique perspective of Free Cash Flow. Our proprietary models, algorithms, and business processes generate insights for our clients. Our familiarity with execution leads us to explicitly tie our analyses to operations rather than accounting. Our unique top-level legal, operational, and financial context gives us a deep understanding of the issues specific to 409A valuations. We understand complex transaction structures and the idiosyncrasies of convertible and exercisable securities. Recognizing that "*plans are nothing, planning is everything*," we traditionally include scenario and sensitivity analyses in our valuations to understand and mitigate risk with a heavy emphasis on deliberate decision making.

Rick Colosimo, *Managing Director*, has negotiated, drafted, and reviewed dozens of security issuances by early-stage companies. Rick's skills include transaction structuring and execution and financial analysis. His New York City and Silicon Valley practices included start-ups, venture financing, and mergers and acquisitions. Rick was an Infantry officer in the United States Army and is a graduate of the Airborne and Ranger schools. He earned his law degree at Cornell Law School and is a graduate of Allegheny College. He is admitted to practice law in New York and California.

THOUGHTSTORM
STRATEGIC CAPITAL

INDEPENDENT APPRAISAL REPORT

ABC, Inc.
Common Stock Valuation

ABC, Inc.
Common Stock Valuation

CERTIFICATION

ABC Inc. – Common Stock Valuation

This summary sets forth an analysis of the ("Company") at the non-marketable, minority interest level. The undersigned, with the assistance of the client, understands that this Report will be used in connection with the granting of options to employees of the Company.

IRS Revenue Ruling 59-60, which lays down the rules for determining the fair market value of common stock for purposes of the estate tax, defines "Fair Market Value" as the price at which the stock would change hands between a willing buyer and a willing seller, both parties being presumed to be able, as well as informed, concerning the market for such property. Revenue Ruling 59-60 is consistent with the accounting principles (GAAP).

In preparing our analysis, Mr. XYZ, Co-Founder, provided information regarding business conditions, developments and budgets of the Company as on the Valuation Date. The undersigned and its representatives made an independent investigation of the Company and its prospects, and the reliability and accuracy of the information provided. The undersigned has used widely recognized approaches and methods to determine the fair market value of the common stock in ABC Corporation.

After considering all the relevant factors, the undersigned has determined that as of May 01, 2007 the fair market value of the common stock is \$0.33 per share.

¹ AICPA Practice Aid Series 2004 - Valuation of Private Equity, Footnote 6.

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INDEPENDENT APPRAISAL REPORT

ABC, Inc.
Common Stock Valuation

Further, assumptions on the same basis as those used in the valuation of the common stock of ABC, Inc. are assumed for the quarter of FY08.

Each product set consists of one or more boards. The total number and ASP of the boards to be sold from the point of actual booking. Based on the sales of ICs are expected to grow exp. conservatively to grow at the rate of around 130 million in FY10 and FY11 respectively.

ABC's other source of revenue is the rebate from the sale of ICs. These rebates are expected to grow at the rate of around 130 million in FY10 and FY11 respectively.

Expenses

ABC's expenses can be broadly classified into R&D, Sales & Marketing, Administrative & Development (R&D) cost, Administrative & Development Expenses, Marketing Department Expenses, Marketing Department Expenses, Marketing Department Expenses, Marketing Department Expenses.

COGS entail the cost of raw materials and integrated chips. In FY 2007, the raw material cost per unit and total number of units are expected to be \$4.69 and 1.7 million respectively. In FY 2008, the raw material cost per unit and total number of units are expected to be \$4.69 and 1.7 million respectively.

The COGS is estimated to be \$0.49 million or 46% of the total revenues in FY08. Going forward, the COGS is expected to be around 46% of the total revenues throughout the forecast period. The cost for each department has been estimated based on salaries & wages plus benefit program expenses (legal, consultancy, layout, etc.). R&D cost, the largest cost component of operating expenses, is expected to be around 28% of the total revenues.

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INDEPENDENT APPRAISAL REPORT

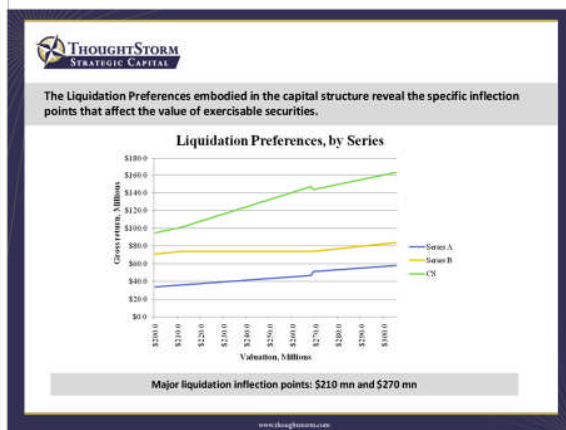
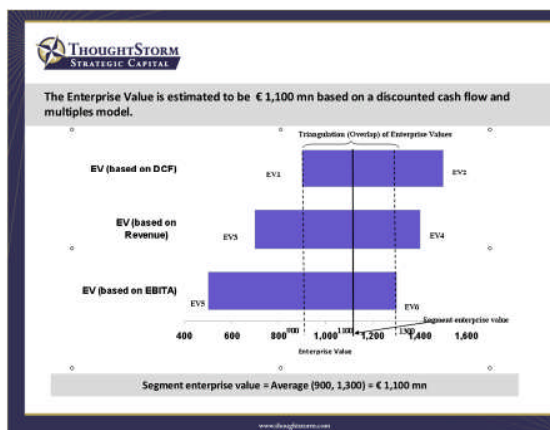


ABC, Inc.
Common Stock Valuation

June 25, 2007

Appendix 3 – Market Approach – Comparable Public Companies Valuation

Company Name	Ticker	Market Cap	Next FY ending	Revenues (tm)	Revenue (FY08E)	TTM Price to Sales (tm)	Estimated Price to Sales (E)
Microsemi Corp.	MSCC	1,700	30-Sep-08	412	506.42	4.2	3.36
Atheros Comm.	ATHR	1,670	31-Dec-08	338	499.98	4.93	3.34
Marvell Tech Group	MVVL	10,910	31-Jan-09	1,830	3,350	5.56	3.10
NetLogic	NETL	619	31-Dec-08	97	130.03	6.24	4.76
MediaStar, Inc.	MATH	34	31-Dec-08	9	18.24	N/A	1.78
PMC-Sierra Inc.	PMCS	1,700	31-Dec-08	441	517.84	3.73	3.28
QuickLogic Corp.	QUIK	76	31-Dec-08	32	34.35	2.36	2.20
Semtech Corp.	SMTC	1,090	31-Jan-09	247	287.93	4.37	3.79
Sipex Corp.	SIPX	173	31-Dec-08	78		2.23	N/A
Standard Microsystems Corp.	SMSC	742	28-Feb-09	371	413.63	1.99	1.79
Volterra Semiconductor Corp.	VLTR	346	31-Dec-08	76	106.47	4.47	3.25
Lattice Semiconductor Corp.	LSCC	682	31-Dec-08	246	278.97	2.73	2.44
Actel Corp.	ACTL	361	31-Dec-08	186	227.95	1.92	1.58
Count		13	13	13	12	12	12
Mean						3.73	2.89
Median (2nd Quartile)						3.97	3.17
High						6.24	4.76
Low						1.92	1.58
Trimmed Mean						3.66	2.83
1st Quartile						2.33	2.10
3rd Quartile						4.59	3.34
Multiple Used						Median	Median
						3.97	3.17
ABC's Revenues						TTM	FY 08E
Weight						60%	40%
Equity Value							21,085,426



To learn how we can meet your 409A needs,
email us at Rick@thoughtstorm.com or Mike@thoughtstorm.com