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**Ten Baggers Are . . .**

**Characteristics of High Performance Micro Cap Stocks**

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Please read the important disclosure information on the last page of this report.

## *Ten Baggers Are . . .*      **Characteristics of High Performance Micro Cap Stocks**

Aberdeen researches and recommends small public technology companies that we believe can appreciate five fold in five years. These companies share several characteristics:

- **Single digit stock prices:** Typically the stocks we recommend have stock prices below \$10
- **Small revenue bases:** The stocks we focus on tend to have trailing 12 month revenue at the time we recommend them of less than \$200 million and greater than \$30 million.
- **Small market caps:** The market caps of companies we have recommended and continue to investigate have market caps less than \$250 million.
- **Low Price / Sales Multiples:** The stocks we recommend will have valuations that have price to sales multiples that are less than their peers and often at 1X or less of trailing 12 month revenue.

The following five “Ten Baggers” are examples of companies that had characteristics we look for and went on to produce outstanding returns over a five year period in spite of the 2000-2003 bear market. Prices increased ~17X.

<b>Ten Baggers Really Do Happen</b>								
<b>Stock Prices</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>CAGR</b>	<b>Multiple of Gain</b>
Stock A	\$ 1.45	\$ 1.13	\$ 1.74	\$ 3.72	\$ 16.95	\$ 15.85	61%	10.93
Stock B	\$ 2.03	\$ 2.94	\$ 5.01	\$ 3.47	\$ 15.14	\$ 38.14	80%	18.79
Stock C	\$ 3.53	\$ 27.67	\$ 10.71	\$ 11.99	\$ 14.59	\$ 37.29	60%	10.56
Stock D	\$ 0.97	\$ 1.09	\$ 2.50	\$ 4.50	\$ 15.59	\$ 35.91	106%	37.02
Stock E	\$ 4.83	\$ 1.75	\$ 4.41	\$ 6.37	\$ 27.05	\$ 33.56	47%	6.95
<b>Average</b>	<b>\$ 2.56</b>	<b>\$ 6.92</b>	<b>\$ 4.87</b>	<b>\$ 6.01</b>	<b>\$ 17.86</b>	<b>\$ 32.15</b>	<b>71%</b>	<b>16.85</b>

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These companies experienced compound revenue growth of 26%. Aberdeen screens for revenue growth of at least 20% p.a.

<b>Ten Baggers Start Small</b>								
<b>Revenue</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>CAGR</b>	<b>ITD</b>
Stock A	\$ 42,800	\$ 28,070	\$ 28,000	\$ 41,530	\$ 66,840	\$ 109,390	21%	156%
Stock B	\$ 30,400	\$ 45,930	\$ 45,340	\$ 61,240	\$ 101,470	\$ 215,610	48%	609%
Stock C	\$ 156,920	\$ 220,050	\$ 279,660	\$ 356,190	\$ 419,690	\$ 451,470	24%	188%
Stock D	\$ 41,000	\$ 35,400	\$ 35,090	\$ 43,090	\$ 57,430	\$ 93,770	18%	129%
Stock E	\$ 37,590	\$ 35,610	\$ 37,570	\$ 39,810	\$ 50,890	\$ 70,330	13%	87%
<i>Combined</i>	\$ 265,910	\$ 336,990	\$ 397,660	\$ 500,330	\$ 629,480	\$ 831,180	26%	213%
<i>Average</i>	\$ 61,742	\$ 73,012	\$ 85,132	\$ 108,372	\$ 139,264	\$ 188,114		

Although revenue growth can be dramatic over time, it can be quite “lumpy” on a quarter to quarter or year over year basis. “Lumpy” revenue reports tend to create buying opportunities.

<b>Ten Baggers Have Lumpy Revenue Growth</b>						
<b>Revenue % Change</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>CAGR</b>
Stock A	-34%	0%	48%	61%	64%	21%
Stock B	51%	-1%	35%	66%	112%	48%
Stock C	40%	27%	27%	18%	8%	24%
Stock D	-14%	-1%	23%	33%	63%	18%
Stock E	-5%	6%	6%	28%	38%	13%
<b>Combined</b>	<b>27%</b>	<b>18%</b>	<b>26%</b>	<b>26%</b>	<b>32%</b>	<b>26%</b>
<b>Average</b>	<b>8%</b>	<b>6%</b>	<b>28%</b>	<b>41%</b>	<b>57%</b>	<b>25%</b>

As the revenue begins to ramp, the EBITDA tends to reach to an inflection point and accelerate.

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<b>Ten Baggers Have Accelerating Profits</b>							
<b>EBITDA</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>CAGR</b>
Stock A	\$ 5,400	\$ (380)	\$ 1,310	\$ 9,950	\$ 28,280	\$ 58,240	61%
Stock B	\$ 3,000	\$ 7,090	\$ 6,960	\$ 6,910	\$ 20,330	\$ 50,910	76%
Stock C	\$ 39,920	\$ 70,340	\$ 84,570	\$ 108,280	\$ 109,880	\$ 127,330	26%
Stock D	\$ (4,000)	\$ 2,250	\$ 630	\$ 1,980	\$ 3,860	\$ 16,470	64%
Stock E	\$ 4,380	\$ 2,210	\$ 5,770	\$ 6,010	\$ 11,280	\$ 15,680	29%
<b>Combined</b>	<b>\$ 43,300</b>	<b>\$ 81,890</b>	<b>\$ 97,930</b>	<b>\$ 123,180</b>	<b>\$ 145,350</b>	<b>\$ 210,390</b>	<b>37%</b>
<b>Average</b>	<b>\$ 9,740</b>	<b>\$ 16,302</b>	<b>\$ 19,848</b>	<b>\$ 26,626</b>	<b>\$ 34,726</b>	<b>\$ 53,726</b>	

The micro caps begin to blossom as they approach the \$200-\$300 million threshold for market cap size and their stock prices surpass \$10 per share.

<b>Ten Baggers Start As "Micro Caps"</b>							
<b>Market Cap</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>CAGR</b>
Stock A	\$ 67,338	\$ 52,477	\$ 80,910	\$ 176,700	\$ 858,518	\$ 803,120	64%
Stock B	\$ 36,946	\$ 54,772	\$ 94,639	\$ 66,451	\$ 361,392	\$ 933,667	91%
Stock C	\$ 92,521	\$ 723,294	\$ 260,360	\$ 294,594	\$ 389,115	\$ 1,041,137	62%
Stock D	\$ 13,764	\$ 17,309	\$ 40,225	\$ 75,735	\$ 313,827	\$ 788,943	125%
Stock E	\$ 40,234	\$ 14,368	\$ 35,677	\$ 50,960	\$ 277,533	\$ 350,366	54%
<b>Combined</b>	<b>\$ 183,466</b>	<b>\$ 809,743</b>	<b>\$ 430,901</b>	<b>\$ 487,740</b>	<b>\$ 1,341,867</b>	<b>\$ 3,114,113</b>	<b>76%</b>
<b>Average</b>	<b>50,161</b>	<b>172,444</b>	<b>102,362</b>	<b>132,888</b>	<b>440,077</b>	<b>783,447</b>	

High performance micro caps will tend to have valuations that are less than 1X to 2X trailing 12 month revenue before they begin their run up in value. In the beginning they are too small to be on the radar of institutional buyers and the growth potential is unrecognized.

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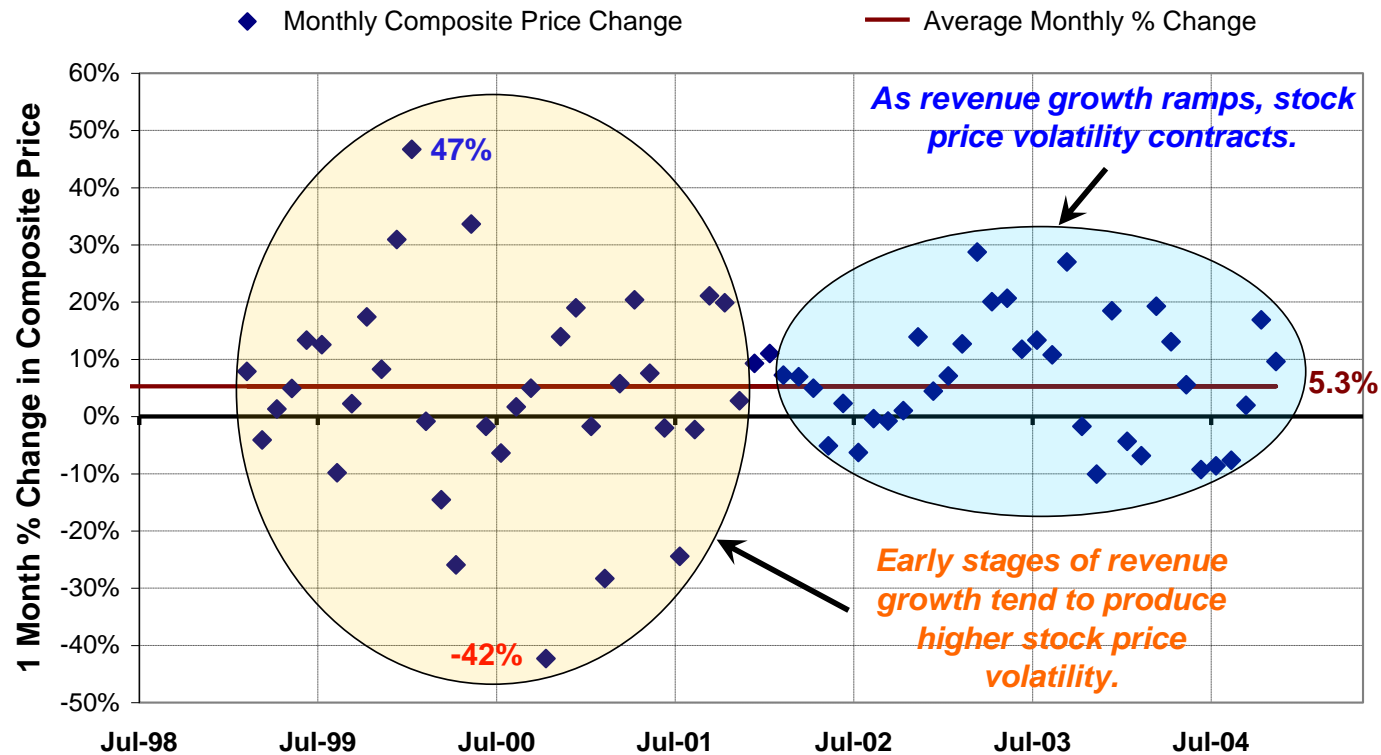
<b>Ten Baggers Start Cheap and Get Expensive</b>						
<b>Mkt Cap / Revenue</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Stock A	1.57	1.87	2.89	4.25	12.84	7.34
Stock B	1.22	1.19	2.09	1.09	3.56	4.33
Stock C	0.59	3.29	0.93	0.83	0.93	2.31
Stock D	0.34	0.49	1.15	1.76	5.46	8.41
Stock E	1.07	0.40	0.95	1.28	5.45	4.98
<b>Combined</b>	<b>0.69</b>	<b>2.40</b>	<b>1.08</b>	<b>0.97</b>	<b>2.13</b>	<b>3.75</b>
<b>Average</b>	<b>0.96</b>	<b>1.45</b>	<b>1.60</b>	<b>1.84</b>	<b>5.65</b>	<b>5.47</b>

**Other characteristics:**

- Revenue can take off due to *new products, the final adoption and roll out of existing products by large customers or an acquisition of a competitor.*
- The stocks will often perform with a *low correlation with the market.*
- *Liquidity in the shares will often be problematic* prior to the micro cap stock reaching the \$10 price threshold or above \$500 million in market cap.

Short term price volatility in micro cap stocks can often be severe in spite of growing clarity in the performance of the company's business model. It is perverse but true that micro cap, high growth stocks are most volatile when they are cheapest.

**Wealth Creation is Not Linear**  
**Monthly Price Volatility Can be Severe**  
**(Sample composite of Five "Ten Baggers" 1999 to 2004)**

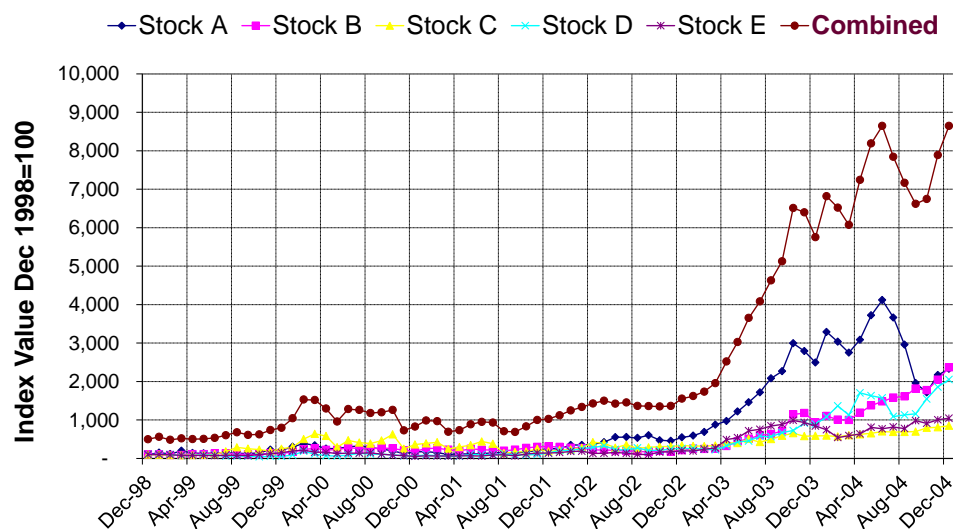


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Despite material drops in the “Ten Bagger’s” stock prices they demonstrated remarkable recuperative ability and went on to score big gains. All of the example stocks experienced sharp price drops and went on to dramatic one year and long term returns.

<b>Ten Baggers = Volatility in Both Directions</b>						
	Stock A	Stock B	Stock C	Stock D	Stock E	Combined
<b>Maximum % 12 Month Drop</b>	-70%	-41%	-71%	-61%	-71%	-54%
<b>Gain 1 Yr Later</b>	243%	568%	70%	184%	184%	92%
<b>Gain from Low to Dec 2004</b>	2197%	1243%	374%	2705%	1545%	1145%
<b>Min Date</b>	Mar-01	Nov-02	Oct-01	Feb-01	Feb-01	Mar-01
<b>Months to Recover</b>	11	5	24	11	24	21

**Ten Baggers Recover Dramtatically  
Stock Price History 1998 to 2004**



## **RECAP . . .**

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- **Aberdeen seeks out high growth, micro-cap tech stocks.**
- **AIM's objective is to find companies capable of becoming "Ten Bagger's".**
- **AIM performs rigorous investigation of its targets' business models to determine long term growth prospects and viability.**
- **AIM recommended companies will have "lumpy" quarters in terms of revenue and stock price performance that are not indicative of the long term potential. "Lumpy" quarterly performance and the ability to discern the difference between a disappointment and a disaster present attractive investment opportunities.**

Jeb B. Terry, Sr.  
President

Aberdeen Investment Management, LLC

[jbtsr@aberdeeninvestment.com](mailto:jbtsr@aberdeeninvestment.com)

214-347-9114

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Information sources: 10-K Wizard, Yahoo Finance, individual company reports