

SILICON STORAGE TECHNOLOGY INC
Form PREM14A
December 29, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

SILICON STORAGE TECHNOLOGY, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common Stock, no par value per share, of Silicon Storage Technology, Inc.

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(2) Aggregate number of securities to which transaction applies:

84,249,979 shares of Common Stock outstanding and owned by shareholders other than shares owned by the parties identified on Schedule A to the merger agreement described in this proxy statement, and includes the anticipated issuance of 854,450 shares of Common Stock pursuant to options granted under the 1995 Equity Incentive Plan, the 1995 Non-Employee Directors Stock Option Plan and the 2008 Equity Incentive Plan prior to the closing of the transaction with exercise prices below \$2.10 that are eligible to be cashed out in the merger.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon the sum of (A) 84,249,979 shares of Common Stock multiplied by \$2.10 per share and (B) options to purchase 854,450 shares of Common Stock with exercise prices below \$2.10 multiplied by \$0.27 per share (which is the difference between \$2.10 and the weighted average exercise price per share). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying \$0.00007130 by the sum of the preceding sentence.

(4) Proposed maximum aggregate value of transaction:

\$177,155,657.40

(5) Total fee paid:

\$12,631.20

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY COPY SUBJECT TO COMPLETION

SILICON STORAGE TECHNOLOGY, INC.

1020 Kifer Road

Sunnyvale, California 94086

(408) 735-9110

Dear Shareholder:

We invite you to attend a special meeting of shareholders of Silicon Storage Technology, Inc., or SST, to be held at SST's offices at 1020 Kifer Road, Sunnyvale, California 94086, at _____ a.m., local time, on _____, 2010, or the Special Meeting. Holders of record of SST common stock, no par value per share, at the close of business on _____, 2010 will be entitled to vote at the Special Meeting or any adjournment or postponement of the Special Meeting.

At the Special Meeting, we will ask you to adopt the Agreement and Plan of Merger, dated as of November 13, 2009, among Technology Resources Holdings, Inc., Technology Resources Merger Sub, Inc. and SST, or the Merger Agreement, and approve the principal terms of the merger as contemplated by the Merger Agreement, or the Merger. As a result of the Merger, SST will become a wholly-owned subsidiary of Technology Resources Holdings, Inc. This is a going-private transaction for the purposes of the rules and regulations of the Securities and Exchange Commission. Technology Resources Holdings, Inc. is a Delaware corporation and is wholly-owned by Prophet Equity LP. Technology Resources Merger Sub, Inc. is a California corporation and is a wholly-owned subsidiary of Technology Resources Holdings, Inc.

Bing Yeh, SST's Chairman and Chief Executive Officer, and Yaw Wen Hu, SST's Executive Vice President and Chief Operating Officer and member of SST's board of directors, will exchange all of their SST common stock for common stock and preferred stock of Technology Resources Holdings, Inc. immediately prior to the consummation of the Merger. Mr. Yeh and Dr. Hu and certain of their affiliates held, directly or indirectly, including shares subject to options exercisable within 60 days, approximately 13.9% of the outstanding shares of SST common stock as of November 30, 2009.

We are also asking you to expressly grant the authority to vote your shares to adjourn the Special Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Merger and adopt the Merger Agreement.

If the Merger is completed, you will be entitled to receive \$2.10 in cash, without interest, for each share of SST common stock that you own, and you will have no ongoing ownership interest in the continuing business of SST. We cannot complete the Merger unless all of the conditions to closing are satisfied, including the approval of the Merger Agreement by the affirmative vote of (1) the holders of a majority of the outstanding shares of SST common stock represented and voting at the Special Meeting, excluding shares held by Mr. Yeh and Dr. Hu and certain of their affiliates, and (2) the holders of a majority of the outstanding shares of SST common stock as of _____, 2010.

A strategic committee of our board of directors composed entirely of independent directors, or the Strategic Committee, reviewed and considered the terms and conditions of the Merger. The Strategic Committee determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable, fair to, and in the best interests of, SST and our shareholders and recommended that our board of directors approve the Merger Agreement and the transactions contemplated thereby, including the Merger, and that our board of directors recommend that our shareholders vote to approve the principal terms of the Merger and adopt the Merger Agreement. Our board of directors also determined that the Merger Agreement, and the transactions contemplated thereby, including the Merger, are fair to, and in the best interests of, SST and our shareholders, declared the Merger Agreement and the transactions contemplated thereby, including the Merger, to be advisable and recommended that our shareholders vote to approve the principal terms of the Merger and adopt the Merger Agreement. Mr. Yeh and Dr. Hu abstained from these determinations.

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**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR
THE APPROVAL OF THE PRINCIPAL TERMS OF THE MERGER AND
THE ADOPTION OF THE MERGER AGREEMENT AND, IF NECESSARY, TO
ADJOURN THE SPECIAL MEETING FOR THE PURPOSE OF SOLICITING ADDITIONAL PROXIES
TO VOTE IN FAVOR OF APPROVING THE PRINCIPAL TERMS OF THE MERGER AND
ADOPTING THE MERGER AGREEMENT.**

YOUR VOTE IS IMPORTANT.

In the materials accompanying this letter, you will find a Notice of Special Meeting of Shareholders, a proxy statement relating to the actions to be taken by our shareholders at the Special Meeting and a proxy card. The proxy statement includes other important information about the Merger Agreement and the Merger. We encourage you to read the entire proxy statement, including its annexes, carefully.

All of our shareholders are cordially invited to attend the Special Meeting in person. Whether or not you plan to attend the Special Meeting, however, please complete, sign, date and return your proxy card in the enclosed envelope or appoint a proxy over the Internet or by telephone as instructed in these materials. It is important that your shares be represented and voted at the Special Meeting. If you attend the Special Meeting, you may vote in person as you wish, even though you have previously returned your proxy card or appointed a proxy over the Internet or by telephone.

On behalf of our board of directors, I thank you for your support and urge you to vote **FOR** the approval of the principal terms of the Merger and the adoption of the Merger Agreement.

Sincerely,

James B. Boyd

Secretary

, 2010

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PRELIMINARY COPY SUBJECT TO COMPLETION

SILICON STORAGE TECHNOLOGY, INC.

1020 Kifer Road

Sunnyvale, California 94086

(408) 735-9110

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON _____, 2010

Dear Shareholder:

You are cordially invited to attend the Special Meeting of Shareholders of Silicon Storage Technology, Inc., a California corporation, or SST, that will be held at our offices at 1020 Kifer Road, Sunnyvale California 94086, at _____ a.m., local time, on _____, 2010, or the Special Meeting, for the following purposes:

1. to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of November 13, 2009, among Technology Resources Holdings, Inc., Technology Resources Merger Sub, Inc. and SST, or the Merger Agreement, and approve the principal terms of the merger as contemplated by the Merger Agreement, or the Merger; and
2. to vote to adjourn the Special Meeting, if necessary, for the purpose of soliciting additional proxies to vote in favor of the approval of the principal terms of the Merger and adoption of the Merger Agreement.

Technology Resources Holdings, Inc. is a Delaware corporation and is wholly-owned by Prophet Equity LP. Technology Resources Merger Sub, Inc. is a California corporation and is a wholly-owned subsidiary of Technology Resources Holdings, Inc.

A strategic committee of our board of directors composed entirely of independent directors, or the Strategic Committee, reviewed and considered the terms and conditions of the Merger. The Strategic Committee determined that the Merger and the Merger Agreement are advisable, fair to, and in the best interests of, SST and our shareholders and recommended that our board of directors approve the Merger Agreement and the transactions contemplated thereby, including the Merger, and that our board of directors recommends that our shareholders vote to approve the principal terms of the Merger and adopt the Merger Agreement. Our board of directors then determined that the Merger and the Merger Agreement are fair to, and in the best interests of, SST and our shareholders, declared the Merger Agreement and the transactions contemplated thereby, including the Merger, to be advisable and recommended that SST's shareholders vote to approve the principal terms of the Merger and adopt the Merger Agreement. Bing Yeh, SST's Chairman and Chief Executive Officer, and Yaw Wen Hu, SST's Executive Vice President and Chief Operating Officer and member of our board of directors, abstained from these determinations. This item of business to be submitted to a vote of the shareholders at the Special Meeting is more fully described in the attached proxy statement, which we urge you to read carefully. Our board of directors also recommends that you expressly grant the authority to vote your shares to adjourn the Special Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Merger and adopt the Merger Agreement. No other business may be transacted at the Special Meeting.

Shareholders of record at the close of business on _____, 2010, or the record date, are entitled to notice of and to vote at the Special Meeting and any adjournment or postponement of the meeting. All shareholders are cordially invited to attend the Special Meeting in person. Approval of the principal terms of the Merger and adoption of the Merger Agreement will require the affirmative vote of (1) the holders of a majority of the outstanding shares of SST common stock represented and voting at the Special Meeting, excluding shares held by Mr. Yeh and Dr. Hu and certain of their affiliates, and (2) the holders of a majority of the outstanding shares of SST common stock as of the record date.

SST shareholders will have the right to demand appraisal of their shares of SST common stock and obtain payment in cash for the fair value of their shares of SST common stock, but only if they perfect their dissenters' rights and comply with the applicable provisions of California law. A copy of the California statutory provisions

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relating to dissenters' rights is attached as **Annex C** to the attached proxy statement, and a summary of these provisions can be found under **Special Factors - Dissenters' Rights** in the attached proxy statement.

You should not send any certificates representing shares of SST common stock with your proxy card. Upon the closing of the Merger, you will be sent instructions regarding the procedure to exchange your stock certificates for the cash Merger consideration.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR
THE APPROVAL OF THE PRINCIPAL TERMS OF THE MERGER AND
THE ADOPTION OF THE MERGER AGREEMENT AND, IF NECESSARY, TO
ADJOURN THE SPECIAL MEETING FOR THE PURPOSE OF SOLICITING ADDITIONAL PROXIES
TO VOTE IN FAVOR OF APPROVING THE PRINCIPAL TERMS OF THE MERGER AND
ADOPTING THE MERGER AGREEMENT.**

YOUR VOTE IS IMPORTANT.

Your vote is very important, regardless of the number of shares you own. Even if you plan to attend the Special Meeting in person, we request that you complete, sign, date and return the enclosed proxy card, or appoint a proxy over the Internet or by telephone as instructed in these materials, to ensure that your shares will be represented at the Special Meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of approval of the principal terms of the Merger and adoption of the Merger Agreement and, if necessary, to adjourn the Special Meeting for the purposes of soliciting additional proxies to vote in favor of approving the principal terms of the Merger and adopting the Merger Agreement. If you fail to return your proxy card or if you fail to appoint a proxy over the Internet or by telephone, your shares will not be counted for purposes of determining whether a quorum is present at the Special Meeting and will have the same effect as a vote against approving the principal terms of the Merger and adoption of the Merger Agreement and the adjournment of the Special Meeting for the purposes of obtaining additional proxies to vote in favor of approving the principal terms of the Merger and adoption of the Merger Agreement. If you do attend the Special Meeting and wish to vote in person, you may withdraw your proxy and vote in person. If your shares are held in the name of your broker, bank or other nominee, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote in person at the Special Meeting.

No person has been authorized to give any information or to make any representations other than those set forth in the proxy statement in connection with the solicitation of proxies made hereby, and, if given or made, such information must not be relied upon as having been authorized by SST or any other person.

By Order of the Board of Directors

James B. Boyd

Secretary

Sunnyvale, California

The proxy statement is dated _____, 2010, and is first being mailed to shareholders of SST on or about _____, 2010.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS

DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

In addition to delivering the proxy materials for the Special Meeting to be held on _____, 2010 to stockholders by mail, the proxy statement for such meeting is also is available at _____

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SUMMARY TERM SHEET

This Summary Term Sheet, together with the Questions and Answers About the Special Meeting and Merger, summarizes the material information in the proxy statement. You should carefully read this entire proxy statement and the other documents to which this proxy statement refers you for a more complete understanding of the matters being considered at the Special Meeting. In addition, this proxy statement incorporates by reference important business and financial information about Silicon Storage Technology, Inc. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in Where You Can Find More Information beginning on page 85. We have included page references in parentheses to direct you to more complete descriptions of the topics presented in this summary. The Agreement and Plan of Merger, dated as of November 13, 2009, among Technology Resources Holdings, Inc., Technology Resources Merger Sub, Inc. and Silicon Storage Technology, Inc., or the Merger Agreement, is attached as **Annex A** to this proxy statement. We encourage you to read the Merger Agreement, as it is the legal document that governs the merger, or the Merger. In this proxy statement, we, our and SST refer to Silicon Storage Technology, Inc.

The Merger and the Merger Agreement.

The Parties to the Merger (see page 17). Silicon Storage Technology, Inc., a California corporation, or SST, is a leading provider of nonvolatile memory solutions, including flash mass storage products. Technology Resources Holdings, Inc., a Delaware corporation, or Parent, is owned by Prophet Equity LP, a private equity group, or Prophet Equity. Technology Resources Merger Sub, Inc., a California corporation and a wholly-owned subsidiary of Parent, or Merger Sub, was formed solely for the purpose of effecting the Merger. Parent and Merger Sub have not engaged in any business except in furtherance of this purpose.

The Merger. This is a going-private transaction. You are being asked to vote to approve the principal terms of the Merger and adopt the Merger Agreement. Pursuant to the Merger Agreement, Merger Sub will merge with and into SST with SST being the surviving corporation in the Merger. The surviving corporation will continue to do business as Silicon Storage Technology, Inc. following the Merger. As a result of the Merger, SST will cease to be an independent, publicly-traded company. You will no longer have any interest in SST's future earnings or growth. Following consummation of the Merger, the registration of SST common stock and our reporting obligations with respect to our common stock under the Securities Exchange Act of 1934, as amended, or the Exchange Act, will be terminated upon application to the Securities and Exchange Commission, or the SEC. In addition, upon completion of the Merger, shares of our common stock will no longer be listed on any stock exchange, including the Nasdaq Global Market, or quotation system. See The Merger Agreement beginning on page 62.

Merger Consideration. If the Merger is completed, you will be entitled to receive \$2.10 in cash, without interest and less any applicable withholding taxes, for each share of SST common stock, no par value per share, or SST common stock, that you own (other than shares as to which dissenters' rights have been properly exercised). See The Merger Agreement Merger Consideration beginning on page 62. Bing Yeh, SST's Chairman and Chief Executive Officer, and Yaw Wen Hu, SST's Executive Vice President and Chief Operating Officer and member of our board of directors, or the Management Group, have entered into a contribution agreement with Parent, pursuant to which Mr. Yeh and Dr. Hu have agreed to exchange all of their shares of SST common stock, including beneficially held shares, for common stock and preferred stock of Parent immediately prior to the consummation of the Merger.

Treatment of Outstanding Options. Upon the consummation of the Merger, all outstanding options to acquire SST common stock will accelerate and vest in full and will then be cancelled. In consideration for the cancellation of the options, the holder of any such option outstanding immediately prior to the effective time of the Merger will receive an amount equal to the number of shares of SST common

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stock underlying the option multiplied by the amount (if any) by which \$2.10 exceeds the exercise price for each share of SST common stock underlying the options, without interest and less any applicable withholding taxes. If the exercise price of the option is equal to or exceeds \$2.10, the holder of such option will not be entitled to any Merger consideration. See The Merger Agreement Treatment of Options beginning on page 63.

Conditions to the Merger (see page 67). The consummation of the Merger depends on the satisfaction or waiver of a number of conditions, including the following:

the Merger Agreement must have been adopted and the principal terms of the Merger must have been approved by the affirmative vote of (1) the holders of a majority of the outstanding shares of SST common stock represented and voting at the Special Meeting, excluding shares held by Mr. Yeh and Dr. Hu and certain of their affiliates, and (2) the holders of a majority of the outstanding shares of SST common stock as of _____, 2010;

no governmental entity having jurisdiction over SST shall have issued an order, decree or ruling (1) enjoining or otherwise prohibiting the Merger substantially on the terms contemplated in the Merger Agreement, or (2) compelling SST, Parent or Merger Sub or any of our or their respective subsidiaries to dispose of or hold separate any significant portion of our or their business or assets as a result of the Merger or any of the other transactions contemplated by the Merger Agreement;

any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and any other applicable foreign antitrust laws must have expired or been terminated;

the debt financing to be used by Parent to consummate the Merger and the other transactions contemplated by the Merger Agreement must be available for borrowing on the terms and conditions set forth in the executed commitment letter delivered to us or on such other terms and conditions as are reasonably satisfactory to Parent and Merger Sub;

the aggregate number of shares of SST common stock that are issued and outstanding immediately prior to the effective time of the Merger and which are held by holders who have exercised, or have provided notice of their intent to exercise, dissenters' rights in accordance with the provisions of the California Corporations Code must be less than 9,585,416 (10% of the shares of SST common stock outstanding as of the date of the Merger Agreement);

since the date of the Merger Agreement, there must not have been any material adverse effect on SST;

we must have disposed of certain securities of third parties and retained certain other securities of third parties in accordance with the terms of the Merger Agreement;

we must have at least \$25.0 million in cash on hand at closing, or such other amount as we shall mutually agree upon with Parent;

SST's, Parent's and Merger Sub's respective representations and warranties in the Merger Agreement must be true and correct as of the closing date in the manner described under the caption The Merger Agreement Conditions to the Merger beginning on page 67; and

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SST, Parent and Merger Sub must have performed in all material respects all obligations under the Merger Agreement that each is required to perform at or prior to the closing of the Merger.

Restrictions on Solicitations of Other Offers and the Recommendation of our Board (see page 68).

The Merger Agreement provides that, during the period beginning on the date of the Merger Agreement and continuing until 11:59 p.m., California time, on December 28, 2009, or the Go-Shop Period, we are permitted (subject to certain conditions) to solicit, initiate, knowingly

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encourage or otherwise knowingly facilitate (including by way of furnishing non-public information) any inquiries or the making of any proposal or offer (including any proposal from or offer to our shareholders) with respect to, or that would reasonably be expected to lead to, any acquisition proposal, and to enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person non-public information or grant access to our properties, books and records or personnel in connection with, any acquisition proposal. Prior to terminating the Merger Agreement or entering into an acquisition agreement with respect to any such proposal, SST must comply with certain terms of the Merger Agreement described under The Merger Agreement Recommendation Withdrawal/Termination, including negotiating with Parent in good faith to make adjustments to the Merger Agreement and, if required, paying a termination fee.

The Merger Agreement provides that, except with respect to certain excluded parties described under The Merger Agreement Restrictions on Solicitations of Other Offers, upon the expiration of the Go-Shop Period, we must cease and cause to be terminated any solicitation, encouragement, discussion or negotiation with any person relating to an acquisition proposal and, following the expiration of the Go-Shop Period until the termination of the Merger Agreement, we are generally not permitted to:

solicit, initiate, knowingly encourage or knowingly facilitate (including by way of furnishing non-public information) any inquiries or the making of any proposal or offer (including any proposal from or offer to the our shareholders) with respect to, or that would reasonably be expected to lead to, any acquisition proposal;

enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person any non-public information or grant access to our properties, books and records or personnel in connection with, any acquisition proposal; or

terminate, release, amend, waive or modify any provision of any confidentiality, standstill or similar agreement to which we or any of our subsidiaries is a party (or fail to take reasonable measures to enforce the provisions of any such agreements), or take any action to exempt any person (other than Parent, Merger Sub and their affiliates) from any applicable takeover laws or otherwise cause such restrictions not to apply.

The Merger Agreement provides that (subject to certain exceptions) neither our board of directors nor any of its committees may:

withdraw or modify our board of directors' recommendation to our shareholders that they approve the principal terms of the Merger and adopt the Merger Agreement;

approve or recommend any acquisition proposal of a third party; or

cause or permit SST to enter into (or publicly propose that SST enter into) any alternative acquisition agreement with respect to any acquisition proposal.

Notwithstanding these restrictions, under certain circumstances, and so long as SST complies with certain terms of the Merger Agreement described under The Merger Agreement Restrictions on Solicitations of Other Offers and The Merger Agreement Recommendation Withdrawal/Termination, our board of directors or the Strategic Committee may (1) respond to a bona fide unsolicited acquisition proposal not obtained in violation of our covenants in the Merger Agreement, (2) approve or recommend certain superior proposals and, in connection with such approval or recommendation, withdraw or modify its recommendation of the Merger Agreement and/or terminate the Merger Agreement, and/or (3) withdraw or modify our board of directors' recommendation of the Merger Agreement in response to a material development occurring after the date of the Merger Agreement that was neither known by our board of directors or reasonably foreseeable, where failure to take such action would reasonably be expected to result in a breach of its fiduciary duties to our shareholders.

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Termination of the Merger Agreement (see page 71). The Merger Agreement may be terminated:

by mutual written consent of SST and Parent;

by either SST or Parent, if:

the Merger is not consummated on or before April 13, 2010, unless the failure of the Merger to be completed by such date is primarily caused by the failure of the party seeking to exercise such termination right to fulfill any obligation under the Merger Agreement;

any governmental entity having jurisdiction over SST has issued a final and non-appealable order, decree or ruling or taken any other action, in each case permanently enjoining or otherwise prohibiting the consummation of the Merger; or

the shareholders meeting to consider approval of the Merger Agreement under the California Corporations Code concludes without the approval and adoption by our shareholders of the Merger Agreement.

by Parent, if:

we have breached any of our covenants or agreements under the Merger Agreement, or if any of our representations or warranties shall be untrue, such that the conditions to closing relating to such covenants, agreements, representations and warranties would not be satisfied, unless such breach is curable by us through the exercise of our reasonable best efforts and as long as we continue to exercise such reasonable best efforts;

our board of directors fails to include its recommendation of the Merger Agreement in this proxy statement or withdraws its recommendation that our shareholders approve the principal terms of the Merger and adopt the Merger Agreement;

our board of directors approves or recommends, or proposes publicly to approve or recommend, any other acquisition agreement other than the Merger Agreement or permits us to enter into an acquisition agreement related to an acquisition proposal with a third party;

we have failed to call the shareholders meeting to approve the Merger Agreement or to deliver this proxy statement in accordance with the Merger Agreement and such failure is not due to any material breach by Parent or Merger Sub; or

a tender offer or exchange offer for outstanding shares of SST common stock is commenced by a third party and our board of directors recommends that our shareholders tender their shares in such offer (or fails to recommend rejection of such offer within ten business days of the commencement of such offer).

by SST, if:

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Parent or Merger Sub has breached any of their covenants or agreements under the Merger Agreement, or if any representation or warranty of Parent or Merger Sub shall be untrue, such that the conditions to closing relating to such covenants, representations and warranties would not be satisfied, unless such breach is curable by Parent and Merger Sub through the exercise of their reasonable best efforts and as long as Parent and Merger Sub continue to exercise such reasonable best efforts; or

prior to the Special Meeting, we terminate the Merger Agreement due to a superior proposal or an intervening event in compliance with the terms of the Merger Agreement described under The Merger Agreement Restrictions on Solicitations of Other Offers and The Merger Agreement Recommendation Withdrawal/Termination beginning on pages 68 and 70, respectively, and concurrently pay to Parent the termination fee as described under The Merger Agreement Termination Fees beginning on page 72.

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Termination Fees (see page 72). If the Merger Agreement is terminated under certain circumstances:

SST may be obligated to pay:

a termination fee of \$7,045,281, unless such termination arises as a result of a superior proposal submitted by a person or group of persons from whom we have received, prior to the No-Shop Period Start Date (as defined in the Merger Agreement), an acquisition proposal which our Strategic Committee or our board of directors determines constitutes, or could reasonably be likely to result in, a superior proposal, such a person, an Excluded Party, in which case we must pay a fee of \$4,025,875; and

the expenses of Parent, up to \$2,000,000, or a higher amount that may be agreed to by Parent and our board of directors, which amount shall be credited toward any termination fee that may be payable by SST.

Parent may be obligated to pay SST a termination fee of \$7,045,281, unless such termination arises prior to the expiration of the Go-Shop Period, in which case Parent must pay a fee of \$4,025,875. Prophet Equity has agreed to guarantee the obligation of Parent to pay this termination fee and reimburse SST for all reasonable costs and expenses incurred in connection with the collection of the termination fee, including any interest accrued on the overdue amount.

The Special Meeting of SST Shareholders.

See Questions and Answers About the Special Meeting and Merger beginning on page 10 and The Special Meeting beginning on page 58.

Other Important Considerations.

The Strategic Committee and its Recommendation. The Strategic Committee is a committee of our board of directors that was formed in May 2008 to review our investments and to investigate strategic alternatives, including acquisitions and divestitures. The Strategic Committee was originally comprised of three independent members of our board of directors: Ronald Chwang, Yasushi Chikagami and Edward Y.W. Yang. Mr. Chikagami did not stand for re-election to our board of directors in June 2008. In January 2009, Terry M. Nickerson and Bryant R. Riley joined the Strategic Committee. Dr. Chwang has served as Chairman of the Strategic Committee since its inception. Mr. Riley voted against the approval of the Merger Agreement and resigned as a member of our board of directors and all its committees on November 12, 2009. The Strategic Committee determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable, fair to and in the best interests of SST and our shareholders and recommended to our board of directors that our board of directors (1) approve and declare advisable the Merger Agreement and the transactions contemplated thereby, and (2) recommend the approval of the principal terms of the Merger and the adoption of the Merger Agreement by our shareholders.

Board Recommendation. Our board of directors, acting upon the recommendation of the Strategic Committee, recommends that SST's shareholders vote **FOR** the approval of the principal terms of the Merger and adoption of the Merger Agreement, and **FOR** the adjournment of the Special Meeting, if necessary, to solicit additional proxies. See Special Factors Reasons for the Merger of SST and Recommendation of the Board of Directors beginning on page 26.

Reasons for the Merger. For a discussion of the material substantive and procedural factors considered by our board of directors and the Strategic Committee in reaching their conclusions and the reasons why our board of directors and the Strategic Committee determined that the Merger is fair. See Special Factors Reasons for the Merger of SST and Recommendation of the Board of Directors beginning on page 26.

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Position of Prophet Equity Group as to the Fairness of the Merger. The Prophet Equity Group believes that the Merger is both procedurally and substantively fair to the holders of SST common stock other than the Management Group. Their belief is based upon their knowledge and analysis of SST, as well as the factors discussed in the section entitled "Special Factors - Position of the Prophet Equity Group as to the Fairness of the Merger" beginning on page 40. Neither Parent nor Merger Sub makes any recommendation as to whether any SST shareholder should approve the Merger or adopt the Merger Agreement.

Position of the Management Group as to the Fairness of the Merger. The Management Group believes that the Merger Agreement and the Merger are fair to the holders of SST common stock other than the Management Group and agree with the analyses and conclusions of the Strategic Committee and our board of directors based upon the reasonableness of those analyses and conclusions, which they adopt, and their knowledge of SST, as well as the factors considered by, and the findings of, the Strategic Committee and our board of directors with respect to the fairness of the Merger to such unaffiliated shareholders. See "Special Factors - Reasons for the Merger of SST and Recommendation of the Board of Directors" beginning on page 26, and the other factors discussed in the section entitled "Special Factors - Position of the Management Group as to the Fairness of the Merger" beginning on page 42. The views of the Management Group as to the fairness of the Merger should not be construed as a recommendation to any shareholder as to how that shareholder should vote on the proposal to approve the principal terms of the Merger and adopt the Merger Agreement. The members of the Management Group have interests in the Merger different from, and in addition to, those of the other shareholders of SST. These interests are described under "Special Factors - Interests of our Directors and Executive Officers in the Merger" beginning on page 49.

Share Ownership of Directors and Executive Officers. See "Important Information Concerning SST - Security Ownership of Certain Beneficial Owners and Management" beginning on page 81.

Interests of SST's Directors and Executive Officers in the Merger. In considering the recommendation of the Strategic Committee and our board of directors in favor of approval of the principal terms of the Merger and adoption of the Merger Agreement, you should be aware that there are provisions of the Merger Agreement and the Merger that will result in certain benefits to our directors and executive officers, including the continuation of certain indemnification and insurance arrangements and the acceleration of stock options (as with all holders of options) as follows:

Name	Shares Subject to Options that Vest as a Result of the Merger(1)	Realizable Value of All Options at the Closing of the Merger(1)	Compensation of Current Members of the Strategic Committee(2)
Bing Yeh			
Bertrand F. Cambou	700,000	\$ 189,000	
James B. Boyd			
Yaw Wen Hu			
Derek J. Best			
Paul S. Lui			
Chen Tsai			
Ronald Chwang		3,360	\$ 8,800
Terry M. Nickerson		3,360	9,600
Edward Y.W. Yang		3,360	9,600
Total	700,000	\$ 199,080	\$ 28,000

- (1) This table excludes stock options with exercise prices equal to or greater than \$2.10 per share. Upon the consummation of the Merger, all outstanding options to acquire SST common stock held by our executive officers and directors, like all other stock options held by our other employees, will accelerate and vest in full and will then be cancelled.
- (2) This table includes aggregate remuneration received by members of the Strategic Committee from inception of the Strategic Committee through November 30, 2009.

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As of November 30, 2009, our directors and executive officers collectively held approximately 12.7% of the outstanding shares of SST common stock. See Important Information Concerning SST Security Ownership of Certain Beneficial Owners and Management beginning on page 81. Mr. Yeh and Dr. Hu have entered into a contribution agreement with Parent, pursuant to which Mr. Yeh and Dr. Hu have agreed to exchange all of their beneficially held shares of SST common stock for common stock and preferred stock of Parent immediately prior to the consummation of the Merger. Mr. Yeh and Dr. Hu, who beneficially held, directly or indirectly, including shares subject to options exercisable within 60 days, approximately 13.9% of the outstanding shares of SST common stock as of November 30, 2009, have also entered into voting agreements with Parent pursuant to which they have agreed to vote all of their beneficially held shares in favor of the Merger and against any other acquisition proposals, and further agreed to certain restrictions on the transfer of their shares.

Opinion of Houlihan Lokey Howard & Zukin Capital, Inc. On November 12, 2009, Houlihan Lokey Howard & Zukin Capital, Inc., or Houlihan Lokey, rendered an oral opinion to the Strategic Committee (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated November 13, 2009), as to the fairness, from a financial point of view, of the Merger consideration to be received by the holders of SST common stock other than the Management Group, as of November 13, 2009 and based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion.

Houlihan Lokey's opinion was directed to the Strategic Committee and only addressed the fairness from a financial point of view of the Merger consideration to be received by the holders of SST common stock other than the Management Group and does not address any other aspect or implication of the Merger. The summary of Houlihan Lokey's opinion in this proxy statement is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex B to this proxy statement and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. We encourage our shareholders to carefully read the full text of Houlihan Lokey's written opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this proxy statement are intended to be, and do not constitute, advice or a recommendation to the Strategic Committee or any shareholder as to how to act or vote with respect to the Merger or related matters. See Special Factors Opinion of the Financial Advisor to SST's Strategic Committee beginning on page 31.

Sources of Financing. A condition of Parent's obligation to consummate the Merger is the availability at closing of its debt financing to be used by Parent to consummate the Merger and the other transactions contemplated by the Merger Agreement. SST and Parent estimate that the total amount of funds necessary to consummate the Merger and related transactions, including the payment of customary fees and expenses in connection with the Merger and financing arrangements, will be approximately \$184.5 million. Pursuant to an equity commitment letter, Prophet Equity has committed to provide equity financing for the Merger. In addition, Prophet Equity has received a debt commitment letter from Petrus Private Investments L.P. to provide up to \$25.0 million in debt financing, subject to the conditions set forth therein. The Merger Agreement provides that SST must satisfy a minimum cash closing condition of \$25.0 million. As disclosed in SST's balance sheet in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, SST had cash and cash equivalents of approximately \$75.2 million and certain government and other securities of approximately \$96.9 million. The intention of Parent and SST is that SST use its cash and cash equivalents and use the net proceeds from the sale of these government and other securities on its balance sheet, together with the equity funding by Prophet Equity and debt funding by Petrus Private Investments L.P., to fund the consummation of the Merger. Funding of the equity and debt financing is subject to the satisfaction of the conditions set forth in the commitment letters pursuant to which the financing will be provided. See

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Special Factors Financing beginning on page 44. The following arrangements are in place to provide the necessary financing for the Merger, including the payment of related transaction costs, charges, fees and expenses:

Equity Financing. Our board of directors and the Strategic Committee have received an equity commitment letter from Prophet Equity, pursuant to which Prophet Equity has committed to provide equity financing for the Merger, subject to certain conditions set forth therein.

Contribution Agreement. In connection with the Merger Agreement, Parent, Mr. Yeh and Dr. Hu entered into a contribution agreement, pursuant to which Mr. Yeh and Dr. Hu have agreed to contribute their shares of SST common stock, including beneficially held shares, to Parent immediately before the consummation of the Merger in exchange for an ownership interest in Parent.

Debt Financing. Parent has received a debt commitment letter from Petrus Private Investments L.P. to provide up to \$25.0 million of debt financing, subject to the conditions set forth therein.

Regulatory Approvals (see page 56). Under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, or the HSR Act, and the rules promulgated thereunder by the Federal Trade Commission, or the FTC, the Merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the Department of Justice, or the DOJ, and the applicable waiting period has expired or been terminated. SST and Parent intend to file notification and report forms under the HSR Act with the FTC and the Antitrust Division in January 2010.

U.S. federal and state laws and regulations, as well as the laws and regulations of other countries in which we or Parent do business, may require that we or Parent obtain approvals or certificates of need from, file new license and/or permit applications with, and/or provide notice to, applicable governmental authorities in connection with the Merger.

Applicability of Rules Related to Going Private Transactions; Position of the Management Group as to Fairness and Their Reasons for the Merger (see pages 39 and 42). The requirements of Rule 13e-3 under the Exchange Act apply to the Merger because Mr. Yeh and Dr. Hu are deemed to be engaged in a going private transaction under applicable SEC rules. To comply with the requirements of Rule 13e-3, our board of directors, Mr. Yeh and Dr. Hu make certain statements as to, among other matters, their purposes and reasons for approving the Merger, and their belief as to the fairness of the Merger to our unaffiliated shareholders.

Each of the Strategic Committee and our board of directors has determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable, fair to and in the best interests of SST and shareholders other than the Management Group. Mr. Yeh and Dr. Hu abstained from these determinations by our board of directors. In evaluating the Merger, the Strategic Committee consulted with its independent legal and financial advisors, reviewed a significant amount of information and considered a number of factors and procedural safeguards set forth below in Special Factors Reasons for the Merger of SST and Recommendation of the Board of Directors. Based upon the foregoing, and consistent with their general recommendation to shareholders, the Strategic Committee and our board of directors believe that the Merger Agreement and the Merger are fair to and in the best interests of shareholders other than the Management Group.

Voting Agreements. Concurrent with the execution of the Merger Agreement, the Management Group entered into voting agreements pursuant to which the Management Group has agreed to, among other things, vote in favor of the adoption of the Merger Agreement. The Management Group, directly or indirectly, including shares subject to options exercisable within 60 days, collectively beneficially held approximately 13.9% of the outstanding shares of SST common stock as of November 30, 2009.

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Tax Consequences. The Merger will be a taxable transaction for U.S. federal income tax purposes if you are a U.S. person, as defined under *Special Factors Material U.S. Federal Income Tax Consequences of the Merger*. If you are a U.S. person, your receipt of cash in exchange for your shares of SST common stock in the Merger generally will cause you to recognize a gain or loss measured by the difference, if any, between the cash you receive in the Merger, determined before the deduction of any applicable withholding taxes, and your adjusted tax basis in your shares of SST common stock. Under U.S. federal income tax law, you will be subject to information reporting on cash received in the Merger unless an exemption applies. Backup withholding may also apply with respect to cash you receive in the Merger, unless you provide proof of an applicable exemption or a correct taxpayer identification number and otherwise comply with the applicable requirements of the backup withholding rules. You should consult your own tax advisor for a full understanding of how the Merger will affect your U.S. federal, state and local and/or foreign taxes and, if applicable, the tax consequences of the receipt of cash in connection with the termination of, and full payment for, your options to purchase shares of SST common stock, including the transactions described in this proxy statement relating to our other equity compensation and benefit plans. See *Special Factors Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 53.

Dissenters Rights (see page 51). If you do not wish to accept the \$2.10 per share Merger consideration in the Merger, you have the right under California law to have your shares appraised by a California court, provided that you comply with certain procedures. These dissenters rights are subject to a number of restrictions and technical requirements. Generally, in order to exercise dissenters rights, among other things, (1) you must not vote in favor of the Merger Agreement, (2) you must make a written demand for appraisal in compliance with California law within 30 days of notification that the Merger Agreement has been approved and (3) you must hold shares of SST common stock on the record date and continuously hold such shares through the effective time of the Merger. The fair value of your shares of SST common stock as determined in accordance with California law may be more or less than, or the same as, the Merger consideration to be paid to non-dissenting shareholders in the Merger. Merely voting against approval of the principal terms of the Merger and adoption of the Merger Agreement will not preserve your right of appraisal under California law. **Annex C** to this proxy statement contains a copy of the California statute relating to shareholders dissenters rights. Failure to follow all of the steps required by this statute will result in the loss of your dissenters rights.

Market Price of SST Common Stock. Our common stock is listed on the Nasdaq Global Market under the ticker symbol SSTI. On November 12, 2009, the last full trading day prior to the public announcement of the Merger, SST common stock closed at \$1.86 per share. On _____, 2010, the last full trading day prior to the date of this proxy statement, SST common stock closed at \$ _____ per share. The average of the ten day trading prices ending on November 12, 2009, for shares of SST common stock is \$1.92 per share. The average of the thirty day trading prices ending on November 12, 2009, for shares of SST common stock is \$2.20 per share. Our stock price can fluctuate broadly even over short periods of time. It is impossible to predict the actual price of SST common stock immediately prior to the effective time of the Merger.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND MERGER

Q: What will happen to SST as a result of the Merger?

A: If the Merger is completed, SST will cease to be a publicly-traded company and will become a wholly-owned subsidiary of Parent, which is currently wholly-owned by Prophet Equity and is expected to be wholly-owned by Prophet Equity and the Management Group immediately prior to the Merger. You will no longer have any interest in our future earnings or growth. Following consummation of the Merger, the registration of SST common stock and our reporting obligations with respect to our common stock under the Exchange Act will be terminated upon application to the SEC. In addition, upon completion of the Merger, shares of our common stock will no longer be listed on any stock exchange, including the Nasdaq Global Market, or quotation system.

Q: What will happen to my shares of SST common stock after the Merger?

A: Upon completion of the Merger, each outstanding share of SST common stock, other than shares held by SST, Parent, Merger Sub, or any of their respective subsidiaries, the Management Group and shareholders who perfect their dissenters' rights, will automatically be cancelled and will be converted into the right to receive \$2.10 in cash, without interest, subject to any applicable withholding taxes. Shares of SST common stock held by the Management Group will be exchanged immediately prior to the effective time for common and preferred stock of Parent.

Q: Will I own any shares of SST common stock or Parent common stock or preferred stock after the Merger?

A: No. You will be paid cash for your shares of SST common stock. Our shareholders will not have the option to receive shares of Parent common or preferred stock in exchange for their shares instead of cash.

Q: What happens to SST stock options in the Merger?

A: Upon the consummation of the Merger, all outstanding options to acquire SST common stock will accelerate and vest in full and will then be cancelled. In consideration for the cancellation of the options, the holder of any such option will receive an amount equal to the number of shares of SST common stock underlying the option multiplied by the amount (if any) by which \$2.10 exceeds the exercise price for each share of SST common stock underlying the options, without interest and less any applicable withholding taxes. If the exercise price of the option is equal to or exceeds \$2.10, the holder of such option will not be entitled to any Merger consideration. For discussion of tax-related implications, see *Special Factors* Material U.S. Federal Income Tax Consequences of the Merger beginning on page 53.

Q: Will the Merger be taxable to me?

A: Generally, yes. For U.S. federal income tax purposes, generally SST shareholders, other than SST, Parent and the Management Group, that are U.S. persons (as defined under *Special Factors* Material U.S. Federal Income Tax Consequences of the Merger), will recognize a taxable gain or loss as a result of the Merger measured by the difference, if any, between \$2.10 per share and their adjusted tax basis in that share. This gain or loss will be a long-term capital gain or loss if the U.S. person has held its SST shares more than one year as of the effective time of the Merger. For discussion of tax-related implications, see *Special Factors* Material U.S. Federal Income Tax Consequences of the Merger beginning on page 53.

Q: Does our board of directors recommend approval of the principal terms of the Merger and adoption of the Merger Agreement?

A: Yes. A strategic committee of our board of directors composed entirely of independent directors, or the Strategic Committee, reviewed and considered the terms and conditions of the Merger. The Strategic

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Committee determined that the Merger and the Merger Agreement are advisable, fair to, and in the best interests of, SST and our shareholders and recommended that our board of directors approve the Merger Agreement and the transactions contemplated thereby, including the Merger, and that our board of directors recommend that our shareholders vote to approve the principal terms of the Merger and adopt the Merger Agreement. Our board of directors then determined that the Merger and the Merger Agreement are fair to, and in the best interests of, SST and our shareholders, and declared the Merger Agreement and the transactions contemplated thereby, including the Merger, to be advisable. Our board of directors recommends that our shareholders approve the principal terms of the Merger and adopt the Merger Agreement.

Q: What vote of the shareholders is required to approve the principal terms of the Merger and adopt the Merger Agreement?

A: To approve the principal terms of the Merger and adopt the Merger Agreement, shareholders of record as of _____, 2010 holding a majority of the outstanding shares of SST common stock must vote **FOR** the approval of the principal terms of the Merger and adoption of the Merger Agreement. In addition, the holders of a majority of the outstanding shares of SST common stock represented and voting at the Special Meeting, excluding shares held by Mr. Yeh and Dr. Hu, must vote **FOR** the approval of the principal terms of the Merger and adoption of the Merger Agreement. There are _____ shares of SST common stock entitled to be voted at the Special Meeting.

Q: What vote of the shareholders is required to approve the adjournment of the Special Meeting?

A: The approval of the adjournment of the Special Meeting requires the affirmative vote of the holders of a majority of the shares of SST common stock present, in person or by proxy, at the Special Meeting, excluding abstentions.

Q: How do SST's directors and executive officers intend to vote?

A: As of _____, 2010, or the record date, the directors and executive officers of SST held and are entitled to vote, in the aggregate, _____ shares of our common stock representing approximately _____% of the outstanding shares. We believe our directors and executive officers intend to vote all of their shares of SST common stock **FOR** the approval of the principal terms of the Merger and adoption of the Merger Agreement. In addition, Mr. Yeh and Dr. Hu, who beneficially held approximately _____% of the outstanding shares of SST common stock, including shares subject to options exercisable within 60 days, as of the record date, have entered into voting agreements pursuant to which they have agreed, among other things, to vote in favor of the approval of the principal terms of the Merger and adoption of the Merger Agreement.

Q: Who is soliciting my vote?

A: This proxy solicitation is being made and paid for by SST. In addition, we have retained Innisfree M&A Incorporated, or Innisfree, to assist in the solicitation. We will pay Innisfree approximately \$125,000 plus out-of-pocket expenses for its assistance. Our directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or by other means of communication. These persons will not be paid additional remuneration for their efforts. We will also request brokers and other custodians, nominees and fiduciaries to forward proxy solicitation material to the beneficial owners of shares of SST common stock that the brokers and other custodians, nominees and fiduciaries hold of record. We will reimburse them for their reasonable out-of-pocket expenses.

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Q: Am I entitled to dissenters' rights?

A: Yes. Under California law, you have the right to seek appraisal of the fair value of your shares as determined by a California court if the Merger is completed, but only if you do not vote in favor of approving the principal terms of the Merger and adopting the Merger Agreement and comply with the California law procedures explained in this proxy statement.

Q: What is the date, time and location of the Special Meeting?

A: The Special Meeting will be held at SST's offices at 1020 Kifer Road, Sunnyvale, California 94086, at _____ a.m., local time, on _____, 2010.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes, and consider how the Merger affects you. Then mail your completed, dated and signed proxy card in the enclosed return envelope or appoint a proxy over the Internet or by telephone as soon as possible so that your shares can be voted at the Special Meeting.

Q: What happens if I do not return a proxy card?

A: The failure to return your proxy card (or to appoint a proxy over the Internet or by telephone or to vote in person) will have the same effect as voting **AGAINST** approval of the principal terms of the Merger and adoption of the Merger Agreement.

Q: How are votes counted?

A: For the proposal relating to the approval of the principal terms of the Merger and adoption of the Merger Agreement, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will not count as votes cast on the proposal relating to approval of the principal terms of the Merger and adoption of the Merger Agreement, but will count for the purpose of determining whether a quorum is present. As a result, if you **ABSTAIN**, it has the same effect as if you vote **AGAINST** the approval of the principal terms of the Merger and adoption of the Merger Agreement. For a proposal to adjourn or postpone the Special Meeting, if necessary or appropriate, to solicit additional proxies, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will not count as votes cast on a proposal to adjourn or postpone the Special Meeting, if necessary or appropriate, to solicit additional proxies, but will count for the purpose of determining whether a quorum is present. If you **ABSTAIN**, it will have no effect on a proposal to adjourn or postpone the Special Meeting. If you sign and return your proxy and do not indicate how you want to vote, your proxy will be voted **FOR** the proposal to approve the principal terms of the Merger and adopt the Merger Agreement, and **FOR** a proposal to approve the adjournment or postponement of the Special Meeting, if necessary or appropriate, to solicit additional proxies. If you hold your shares in street name, follow the instructions from your broker on how to vote your shares. Please do NOT send in your share certificates with your proxy.

Q: May I vote in person?

A: Yes. You may vote in person at the Special Meeting, rather than signing and returning your proxy card, if you own shares in your own name. However, we encourage you to return your signed proxy card to ensure that your shares are voted. You may also vote in person at the Special Meeting if your shares are held in street name through a broker or bank provided that you bring a legal proxy from your broker or bank and present it at the Special Meeting. You may also be asked to present photo identification for admittance.

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Q: May I appoint a proxy over the Internet or by telephone?

A: Yes. You may appoint a proxy over the Internet or by telephone by following the instructions included in these materials.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before the shares reflected on your proxy card are voted at the Special Meeting. You can do this in one of four ways. First, you can send a written, dated notice to our corporate secretary stating that you would like to revoke your proxy. Second, you can complete, sign, date and submit a new proxy card. Third, you can submit a subsequent proxy over the Internet or by telephone. Fourth, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions received from your broker to change your instructions.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will **NOT** vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedure provided by your broker. Without instructions, your shares will not be voted, which will have the same effect as voting **AGAINST** approval of the principal terms of the Merger and adoption of the Merger Agreement.

Q: Should I send in my stock certificates now?

A: No. After the Merger is completed, you will receive written instructions for exchanging your shares of SST common stock for the Merger consideration of \$2.10 in cash, without interest, for each share of SST common stock.

Q: When do you expect the Merger to be completed?

A: We are working toward completing the Merger as quickly as possible, but we can not predict the exact timing. We currently expect the Merger to be completed in the second quarter of 2010. In addition to obtaining shareholder approval, all other closing conditions must be satisfied or waived. However, we cannot assure you that all conditions to the Merger will be satisfied or, if satisfied, the date by which they will be satisfied.

Q: When will I receive the Merger consideration for my shares of SST common stock?

A: After the Merger is completed, you will receive written instructions, including a letter of transmittal, that explain how to exchange your shares for the \$2.10 per share Merger consideration. When you properly return and complete the required documentation described in the written instructions, you will promptly receive from the paying agent a payment of the Merger consideration for your shares.

Q: Where can I find more information about the companies?

A: SST files reports and other information with the SEC. Some of these reports and this other information are attached as annexes hereto. Parent, Merger Sub and members of the Management Group are also required to file information with the SEC in connection with their

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ownership interest or potential ownership interest in SST. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available at the SEC's website maintained at www.sec.gov. You can also request copies of the documents we file with the SEC from us. See "Other Matters Where You Can Find More Information" beginning on page 85.

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Q: Who can help answer my questions?

A: If you would like additional copies, without charge, of this proxy statement or if you have questions about the Merger, including the procedures for voting your shares, you should contact us or our proxy solicitor, Innisfree, as follows:

Silicon Storage Technology, Inc.

Investor Relations

1020 Kifer Road

Sunnyvale, California 94086

Telephone: (408) 735-9110

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, NY 10022

Telephone: (877) 456-3510

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this proxy statement relating to the closing of the Merger and other future events are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that could cause actual results to differ materially, including risks relating to receiving the approval of (1) the holders of a majority of the outstanding shares of SST common stock represented and voting at the Special Meeting, excluding shares held by Mr. Yeh and Dr. Hu and (2) the holders of a majority of the outstanding shares of SST common stock as of the record date, satisfying other conditions to the closing of the Merger and other matters.

For a detailed discussion of these and other risk factors, please refer to our filings with the SEC on Forms 10-K, 10-Q and 8-K. You can obtain copies of our Forms 10-K, 10-Q and 8-K and other filings for free at the Investors section of our website at www.sst.com, at the SEC website at www.sec.gov or from commercial document retrieval services.

We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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RISK FACTORS

In addition to the risk factors detailed in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 20, 2009 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 filed with the SEC on November 9, 2009, below please find two risk factors which relate to the Merger. You should consider the following factors in conjunction with the other information included or incorporated by reference in this proxy statement.

If the Merger is not completed, our business could be harmed and our stock price could decline.

The consummation of the Merger is conditioned upon, among other things, the approval of the principal terms of the Merger and the adoption of the Merger Agreement by our shareholders, regulatory approvals and other customary closing conditions. Therefore, the Merger may not be completed or may not be completed in a timely manner. If the Merger Agreement is terminated, the market price of SST common stock will likely decline. In addition, our stock price may decline as a result of the fact that we have incurred and will continue to incur significant expenses related to the Merger prior to its closing that will not be recovered if the Merger is not completed. If the Merger Agreement is terminated under certain circumstances, we may be obligated to pay Parent a \$7,045,281 or \$4,025,875 termination fee, as described in further detail below in The Merger Agreement Termination Fees, and reimburse it for its expenses in connection with the Merger, up to a maximum of \$2,000,000. The diversion of management's attention from the day-to-day business of SST and the unavoidable disruption to our employees and our relationships with customers and suppliers during the period before completion of the Merger may make it difficult for us to regain our financial and market position if the Merger does not occur. As a consequence of the failure of the Merger to be completed, as well as of some or all of these potential effects of the termination of the Merger Agreement, our business could be harmed in that concerns about our viability are likely to increase, making it more difficult to retain employees and existing customers and to generate new business. If the Merger Agreement is terminated and our board of directors seeks another merger or business combination, we cannot offer any assurance that we will be able to find an acquirer willing to pay an equivalent or better price than the price to be paid under the Merger Agreement.

The fact that there is a merger pending could harm our business, revenue and results of operations.

While the Merger is pending, it creates uncertainty about our future. As a result of this uncertainty, customers may decide to delay, defer, or cancel purchases of our products pending completion of the Merger or termination of the Merger Agreement. If these decisions represent a significant portion of our anticipated revenue, our results of operations and quarterly revenues could be substantially below the expectations of investors.

In addition, while the Merger is pending, we are subject to a number of risks that may harm our business, revenue and results of operations, including:

the diversion of management and employee attention and the unavoidable disruption to our relationships with customers and vendors may detract from our ability to grow revenues and minimize costs;

we have and will continue to incur significant expenses related to the Merger prior to its closing;

the diversion of management and employee attention may make it difficult for us to respond effectively to competitive pressures, industry developments and future opportunities; and

our current and prospective employees may be uncertain about their future roles and relationships with SST following completion of the Merger. This uncertainty may adversely affect our ability to attract and retain key management, sales, marketing and operational personnel.

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THE PARTIES TO THE MERGER

Silicon Storage Technology, Inc.

SST is a California corporation with headquarters in Sunnyvale, California. SST designs, manufactures and markets a diversified range of memory and non-memory products for high volume applications in the digital consumer, networking, wireless communications and Internet computing markets. SST's principal executive offices are located at 1020 Kifer Road, Sunnyvale, California 94086, and our telephone number is (408) 735-9110. For more information about SST, please visit our website at www.sst.com. Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference. SST is publicly traded on the Nasdaq Global Market under the ticker symbol SSTI.

Technology Resources Holdings, Inc.

Technology Resources Holdings, Inc. is a Delaware corporation and is wholly-owned by Prophet Equity LP and has not engaged in any business activity other than in connection with its formation and the Merger. The principal office address of Technology Resources Holdings, Inc. is 1460 Main Street, Suite 200, Southlake, Texas 76092, and its telephone number is (817) 898-1500.

Technology Resources Merger Sub, Inc.

Technology Resources Merger Sub, Inc. is a California corporation and is a wholly-owned subsidiary of Technology Resources Holdings, Inc. and has not engaged in any business activity other than in connection with its formation and the Merger. The principal office address of Technology Resources Merger Sub, Inc. is 1460 Main Street, Suite 200, Southlake, Texas 76092, and its telephone number is (817) 898-1500.

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SPECIAL FACTORS

The discussion of the Merger and the Merger Agreement contained in this statement summarizes the material terms of the Merger and the Merger Agreement. Although we believe that the description covers the material terms of the Merger and the Merger Agreement, this summary may not contain all of the information that is important to you. We urge you to read this proxy statement, the Merger Agreement, a copy of which is attached to this proxy statement as **Annex A**, and the other documents referred to herein (including the annexes) carefully for a more complete understanding of the Merger and the Merger Agreement.

Past Contacts, Transactions, Negotiations and Agreements

Background of the Merger

Over the past several years, our business has contracted in its primary markets. Despite enhancements to our core product offering, our market position has suffered as price reductions for chips have continued, and will continue, putting downward pressure on margins. Our board of directors and management team recognize that that we operate in an industry that is highly competitive and subject to constant and rapid technological change, product obsolescence, price erosion, evolving standards and short life-cycles for certain products. In addition, we have been conscious of the limited trading volume of our shares in the market. Accordingly, members of senior management and our board of directors have continuously reviewed and assessed our business strategy, the various trends and conditions affecting our business and our industry generally, and a variety of strategic alternatives as part of our long-term strategy to increase revenue and profitability and to maximize shareholder value. This review and assessment has included, among other things, consideration of whether it would be in the best interests of our shareholders to continue as a separate company and to expand through organic growth, acquisitions or a combination of the two, or to combine with or be acquired by another company. Additionally, we have explored the opportunity to liquidate, declare a special dividend, or repurchase shares.

On May 12, 2008, our board of directors established a strategic committee, or the Strategic Committee, consisting of three independent directors of our board of directors: Ronald Chwang (as Chairman), Yasushi Chikagami and Edward Y.W. Yang. The Strategic Committee was delegated the full power and authority to, among other things, review and evaluate stock repurchases, dividends, mergers and acquisitions and divestitures. Our board of directors determined that establishing a Strategic Committee was the most prudent course of action given that Bing Yeh, our Chairman and Chief Executive Officer, beneficially held approximately 11% of the outstanding shares of SST common stock at that time, and the likelihood that any financial buyer would require Mr. Yeh to roll-over his SST common stock in connection with any acquisition.

In May 2008, the Strategic Committee held meetings with numerous investment banks to discuss our strategic alternatives with the intention of selecting one bank to advise the Strategic Committee on assessing our strategic alternatives.

On June 6, 2008, the Strategic Committee selected Houlihan Lokey to serve as strategic and financial advisor to the Strategic Committee.

On June 13, 2008, the Strategic Committee met and representatives from Houlihan Lokey discussed with the Strategic Committee their initial views on our strategic alternatives. The Strategic Committee discussed with the Houlihan Lokey representatives a variety of strategic options that would enhance shareholder value and reviewed the options with respect to the near-term use of our cash balances. The Strategic Committee also discussed a potential share repurchase and cash dividend and determined that neither a share repurchase nor a cash dividend would be a prudent use of cash at the time, because a cash dividend would not increase the Company's market value, and because it believed that neither option would create value for our shareholders. In addition, the Strategic Committee and the representatives of Houlihan Lokey discussed the possibility of finding merger and acquisition candidates as well as the potential sale of SST. The Strategic Committee instructed Houlihan Lokey to contact a number of potential candidates for an acquisition, merger or sale of SST.

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On June 23, 2008, we held our Annual Meeting of Shareholders. Mr. Chikagami did not stand for re-election to our board of directors.

On June 27, 2008, the Strategic Committee, with Mr. Chikagami attending as an observer, and representatives of Houlihan Lokey met to discuss recent industry trends and our financial performance. Also discussed was the initial status of conversations with potential acquirors, merger partners, and acquisition targets, as well as the potential for divesting certain of our divisions and the recent industry trend involving joint ventures. The Strategic Committee instructed Houlihan Lokey to continue to facilitate discussions with acquirors, acquisition targets and merger partners for both the entire company and certain of our divisions, as well as joint venture candidates.

From June 2008 through December 2008, we held numerous meetings and facilitated due diligence with numerous strategic and financial parties to acquire either the entire company or certain of our divisions. During this time, 33 prospective buyers, including 18 prospective financial buyers and 15 prospective strategic buyers, were approached by representatives of Houlihan Lokey. 17 prospective buyers entered into non-disclosure agreements with us, and members of our management team gave telephonic and in-person management presentations to 15 prospective buyers. Thirteen prospective buyers, including Prophet Equity, had conference calls and meetings, and conducted due diligence to various degrees, regarding us.

On July 18, 2008, the Strategic Committee, and Mr. Chikagami as an observer, met and representatives of Houlihan Lokey provided to the Strategic Committee an update on its search for potential buyers of SST or certain of our divisions, as well as merger, acquisition and joint venture candidates.

On July 25, 2008, the Strategic Committee, and Mr. Riley as an observer, met and representatives of Houlihan Lokey provided to the Strategic Committee a further update on its search for potential buyers of SST or certain of our divisions, as well as merger, acquisition and joint venture candidates.

On August 18, 2008, members of our management made a management presentation to representatives from Prophet Equity, with representatives of Houlihan Lokey present.

Throughout August 2008, members of our management met with strategic and financial parties to discuss the merits of a sale of SST. We continued to provide diligence information to numerous parties, including Prophet Equity.

On September 10, 2008, the Strategic Committee, and Mr. Riley as an observer, met and representatives of Houlihan Lokey updated the Strategic Committee members on the status of various discussions around divisional divestitures, mergers, acquisition targets and a potential sale of SST.

On September 10, 2008, representatives from Prophet Equity and our management met in-person at our headquarters, with representatives of Houlihan Lokey present.

Throughout September and October 2008, members of our management held numerous meetings and diligence sessions with various strategic and financial parties, including Prophet Equity, with representatives of Houlihan Lokey present.

On October 21, 2008, Prophet Equity submitted a non-binding indication of interest to acquire SST for an aggregate purchase price of \$300 to \$330 million in cash (which would have resulted in a per share price of \$3.00 to \$3.25 based on our then-outstanding share count). The proposal stated that it was contingent on us accepting obligations for our shareholders to indemnify Prophet Equity for breaches of our representations and warranties in the Merger Agreement for an eighteen month period following the closing and a holdback of a portion of the purchase price in an escrow account to cover any post-closing claims, and a post-closing adjustment to the purchase price based on certain balance sheet line items. The proposal was also subject to the satisfactory completion of Prophet Equity's due diligence, and Prophet Equity's ability to obtain financing. In connection

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with submitting its non-binding proposal, Prophet Equity communicated to representatives of Houlihan Lokey that it would require Mr. Yeh and Dr. Hu to agree to exchange their shares of SST common stock, including beneficially held shares, for capital stock in the surviving corporation after the Merger.

On October 22, 2008, Party A submitted a non-binding indication of interest to acquire SST for the lesser of (1) \$3.00 to \$3.15 per share and (2) a 5.0% premium to the ten day volume-weighted average price of SST common stock, which was to be calculated after the public announcement and completion of our share repurchase program. The proposal from Party A was subject to, among other items, the satisfactory completion of Party A's due diligence on SST, negotiation of definitive agreement as well as the condition that Mr. Yeh and potentially other members of our senior management agree to exchange their shares of SST common stock, including beneficially held shares, for capital stock in the surviving corporation after the Merger.

On October 23, 2008, the Strategic Committee, and Messrs. Nickerson and Riley as observers, met and asked representatives of Houlihan Lokey to provide an update on the negotiations with interested parties, including Party A and Prophet Equity. The Strategic Committee asked Houlihan Lokey to engage with Party A in an effort to obtain a more definitive offer, which did not include a price per share based on market prices with no floor. In addition, the Strategic Committee and representatives of Houlihan Lokey discussed acquisition targets and joint venture opportunities, the potential for a share repurchase and the relative performance of our stock to other companies in the industry.

On October 24, 2008, the Strategic Committee, and Messrs. Nickerson and Riley as observers, met and asked representatives of Houlihan Lokey to update their review of strategic alternatives for SST. The topics discussed included the proposals received from Party A and Prophet Equity, buy-side opportunities, a Dutch tender share repurchase and joint venture opportunities. Also discussed was recent industry trends in the NOR flash market, our recent financial performance and the liquidity of the SST common stock relative to our competitors.

On October 24, 2008, Party B submitted a non-binding indication of interest to acquire SST for a range of \$2.90 to \$3.00 per share. The proposal from Party B was subject to, among other items, the satisfactory completion of Party B's due diligence on us. Also mentioned in Party B's proposal, was the potential for Mr. Yeh and potentially other members of our senior management agree to exchange their SST common stock for capital stock in the surviving corporation after the Merger.

On October 30, 2008, the Strategic Committee, and Messrs. Nickerson and Riley as observers, met and asked representatives of Houlihan Lokey to provide an update on the negotiations with interested parties, including Prophet Equity, Party A and Party B. At this meeting the Strategic Committee also approved the retention of Shearman & Sterling LLP, or Shearman & Sterling, as the Strategic Committee's legal advisor. Representatives of Shearman & Sterling provided the Strategic Committee with an overview of its fiduciary duties in connection with a potential transaction and related procedural matters.

Our closing trading price on October 21, 2008, the date we received Prophet Equity's non-binding indication of interest, was \$3.06 per share, our closing trading price on October 22, 2008, the date we received the proposal from Party A, was \$3.06 and our closing trading price on October 24, 2008, the date we received Party B's non-binding indication of interest, was \$2.79 per share.

On November 7, 2008, the Strategic Committee, and Messrs. Nickerson and Riley as observers, met and asked representatives of Houlihan Lokey to present an update on the status of discussions with various strategic and financial parties. Representatives of Houlihan Lokey indicated that in addition to Prophet Equity, Party A and Party B were interested in receiving a draft Merger Agreement for the acquisition of SST.

On November 10, 2008, representatives of Houlihan Lokey had discussions with Party C regarding Party C's interest in engaging in a transaction with us.

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On November 20, 2008, Shearman & Sterling distributed an initial draft of the Merger Agreement to Prophet Equity, Party A and Party B. Neither Party A nor Party B provided any comments or feedback on the draft Merger Agreement.

On November 21, 2008, our management met with Party C to discuss a potential transaction between SST and Party C, with representatives of Houlihan Lokey present.

In November and December 2008, our management continued to provide diligence information and meet with various strategic and financial parties including Prophet Equity, Party A, Party B and Party C, with representatives of Houlihan Lokey present. However, during this time, the ongoing severe changes in the global financial markets impacted our visibility into the business trends, our financial performance and our trading price, and led to reduced activity and interest in SST by the interested strategic and financial parties, including Prophet Equity, Party A, Party B and Party C.

On December 18, 2008, the Strategic Committee, and Messrs. Nickerson and Riley as observers, met and asked representatives of Houlihan Lokey to provide an update on the status of discussion with various parties on acquisitions, divisional divestitures and a sale of SST.

Throughout December 2008 and early January 2009, we facilitated due diligence with all interested strategic and financial parties, including Prophet Equity, Party A and Party B.

On January 12, 2009, members of Prophet Equity met at our headquarters to discuss various diligence items, with representatives of Houlihan Lokey present.

On January 14, 2009, the Strategic Committee met and asked representatives of Houlihan Lokey to present an update on the status of discussions with various strategic and financial parties. Also discussed were the recent industry trends in the NOR flash market and how they affected our relative competitiveness.

On January 22, 2009, our management met again with Party C to discuss a potential transaction between SST and Party C.

On January 23, 2009, our management met with Party D to discuss a potential transaction between SST and Party D, and to provide Party D with diligence information regarding SST.

On January 26, 2009, our management met again with Party D to discuss a potential transaction between SST and Party D, and to provide Party D with additional diligence information regarding SST.

On January 29, 2009, Prophet Equity delivered to representatives of Houlihan Lokey an initial list of issues on the draft Merger Agreement previously circulated by Shearman & Sterling on November 20, 2008.

Also on January 29, 2009, our management met again with Party C to discuss a potential transaction between SST and Party C.

On January 30, 2009, representatives of Shearman & Sterling, Houlihan Lokey and Jackson Walker L.L.P., or Jackson Walker, Prophet Equity's legal advisor, had a conference call to discuss Prophet Equity's list of issues on the draft Merger Agreement.

On January 30, 2009, our board of directors appointed Messrs. Nickerson and Riley to the Strategic Committee.

Throughout January and February 2009, we continued to hold diligence meetings, with representatives of Houlihan Lokey present, with interested financial and strategic parties including Prophet Equity, Party A, Party C and Party D.

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On February 2, 2009, Shearman & Sterling delivered an initial draft of the disclosure schedules to the Merger Agreement to Prophet Equity.

On February 4, 2009, our management met again with Party C to discuss a potential transaction between SST and Party C.

On February 13, 2009, Prophet Equity submitted a revised non-binding indication of interest to acquire SST for \$1.82 per share. Prophet Equity indicated that its reduced price was based on our lower than expected fourth quarter financial results and our downwardly revised outlook for future performance of the business. Also cited were the continuing downturns in our industry and end markets as well as difficulties faced by certain of our larger competitors. Prophet Equity and Jackson Walker also delivered a revised draft of the Merger Agreement, which included as a condition that Prophet Equity be able to obtain debt financing, included obligations for our shareholders to indemnify Prophet Equity for breaches of our representations and warranties in the Merger Agreement for an eighteen month period following the closing and included a post-closing adjustment to the purchase price based on certain balance sheet line items. The revised draft did not contain a go shop provision. The revised draft also deleted any requirement that Prophet Equity guarantee the payment obligations of Parent under the Merger Agreement. The revised draft also provided that Prophet Equity was to be reimbursed all expenses incurred by it in connection with the transaction, whether incurred before or after the execution of the Merger Agreement.

Also on February 13, 2009, our management met again with Party D to discuss a potential transaction between SST and Party D, and to provide Party D with additional diligence information regarding SST.

On February 17, 2009, representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker held a teleconference during which they discussed the revised Merger Agreement delivered by Jackson Walker.

On February 20, 2009, Prophet Equity sent a letter to our board of directors outlining its view on the status of the transaction, and its rationale for its proposed purchase price of \$1.82 per share.

On February 23, 2009, the Strategic Committee met with representatives of Houlihan Lokey to discuss the proposal from Prophet Equity as well as the status of discussions with other parties, including Party A. Representatives of Shearman & Sterling also attended and reviewed for the Strategic Committee the legal terms of Prophet Equity's proposal. The Strategic Committee asked representatives of Houlihan Lokey and Shearman & Sterling to continue to negotiate with Prophet Equity to obtain improved terms. The Strategic Committee also instructed Houlihan Lokey to continue discussions with the other interested strategic and financial parties, including Party A. The Strategic Committee also discussed other alternatives such as a dividend or share repurchase. Given the lack of visibility of the business operating results and the pending bankruptcies affecting the memory industry, the Strategic Committee determined that it was in the best interest of our shareholders to retain our cash. Following the meeting, Shearman & Sterling delivered a revised draft of the Merger Agreement to Prophet Equity and Jackson Walker reflecting the feedback from the Strategic Committee.

On February 24, 2009, our management met again with Party D to discuss a potential transaction between SST and Party D, and to provide Party D with additional diligence information regarding SST.

Throughout March 2009, we and representatives of Houlihan Lokey continued to conduct meetings and due diligence with interested strategic and financial parties, including Prophet Equity, Party A, Party C and Party D. In addition, during this time, Prophet Equity worked with its financing sources to obtain the necessary financing to complete the transaction.

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On April 14, 2009, Prophet Equity sent a letter to our board of directors and the Strategic Committee outlining the current status of the transaction. Prophet Equity and Jackson Walker also delivered a revised draft of the Merger Agreement, which contained a go-shop provision, but also continued to include the financing, indemnification and guarantee terms contained in the February 13, 2009 draft.

Also on April 14, 2009, the Strategic Committee met to discuss the revised terms of Prophet Equity's proposal. Representatives of Houlihan Lokey provided an update on the status of negotiations with Prophet Equity and to provide an update on Prophet Equity's financing discussions. Representatives of Shearman & Sterling provided an update on the revised draft of the Merger Agreement received from Prophet Equity and Jackson Walker. The Strategic Committee and representatives of Houlihan Lokey also discussed our shareholder rights plan and the viability of a share buyback. Also discussed was our revenue size and manufacturing capabilities relative to our competitors. The shareholder rights plan was allowed to expire according to its terms.

On April 15, 2009, Shearman & Sterling sent a revised draft of the Merger Agreement to Prophet Equity and Jackson Walker reflecting the feedback from the Strategic Committee. Also on April 15, 2009, representatives of Shearman & Sterling, Prophet Equity and Jackson Walker conducted a conference call to discuss the revised draft of the Merger Agreement.

On April 20, 2009, the Strategic Committee met to discuss our shareholder rights plan and related issues. Representatives from Houlihan Lokey, Cooley Godward Kronish LLP, or Cooley, counsel to SST, and Shearman & Sterling were in attendance.

On April 23, 2009, Prophet Equity and Jackson Walker delivered a revised draft of the Merger Agreement, which deleted the indemnification term contained in the April 14, 2009 draft, but continued to retain the financing and guarantee terms in the April 14, 2009 draft. Later on April 23, 2009, representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker conducted a conference call to discuss the revised draft of the Merger Agreement. After the conference call, the Strategic Committee met and representatives of Houlihan Lokey and Shearman & Sterling provided an update on the revised terms with Prophet Equity.

On April 24, 2009, Prophet Equity and Jackson Walker delivered a revised draft of the Merger Agreement, which was substantially similar to the draft received on April 23, 2009, other than the proposed expense reimbursement was limited to expenses incurred after signing of the definitive Merger Agreement.

Throughout April 2009, we and representatives of Houlihan Lokey continued to conduct meetings and due diligence with interested strategic and financial parties, including Prophet Equity, Party A and Party D.

On April 30, 2009, Prophet Equity indicated to representatives of Houlihan Lokey that it would be willing to guarantee certain of the payment obligations of Parent and Merger Sub under the Merger Agreement, up to a maximum amount equal to the termination fee, and provided proposed language for such a guarantee. Also on April 30, 2009, Shearman & Sterling sent a revised draft of the Merger Agreement to Prophet Equity and Jackson Walker.

On May 1, 2009, Prophet Equity sent an email to representatives of Houlihan Lokey outlining its view on the status of the transaction, and the status of the negotiations. Representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker also held a conference call to discuss the open points in the draft Merger Agreement. Later on May 1, 2009, the Strategic Committee met to discuss the status of the proposal from Prophet Equity. Representatives of Houlihan Lokey were asked to provide an overview of the proposal as well as update the Strategic Committee on the status of discussions with Party A, Party C and Party D as well as discussion with acquisition targets and joint venture candidates. Representatives of Shearman & Sterling provided an update on the status of the Merger Agreement.

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On May 4, 2009, the Strategic Committee met again to discuss the Prophet Equity proposal. Representatives of Houlihan Lokey and Shearman & Sterling provided an overview of the transaction terms and the terms of the Merger Agreement. After discussions, the Strategic Committee decided not to recommend the transaction to the full board of directors for approval because, among other reasons, the proposed purchase price per share of \$1.82 and the other terms of the proposal did not adequately value the SST business and was not in the best interest of shareholders.

From May 2009 until July 2009, we continued to hold diligence meetings, with representatives of Houlihan Lokey present, with interested financial and strategic parties including Prophet Equity, Party A and Party D. In addition, our management held meetings regarding the possibility of acquiring other businesses and divesting certain of our divisions.

On July 15, 2009, representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker held a conference call during which Prophet Equity provided an update on the status of its negotiations with potential debt financing sources, and during which the parties discussed the open points in the draft Merger Agreement.

On July 17, 2009, Prophet Equity submitted a draft equity commitment letter, and Prophet Equity and Jackson Walker delivered a revised draft of the Merger Agreement. The revised draft of the Merger Agreement continued to include as a condition that Prophet Equity be able to obtain debt financing and the expense reimbursement provisions contained in the April 24, 2009 draft, but now included a guarantee by Prophet Equity of certain of the payment obligations of Parent and Merger Sub under the Merger Agreement, up to a maximum amount equal to the termination fee.

On July 20, 2009, the Strategic Committee met to discuss the Prophet Equity proposal. Representatives of Houlihan Lokey and Shearman & Sterling provided updates on the transaction and Merger Agreement terms. The Strategic Committee also asked representatives of Houlihan Lokey to provide an overview of the status of discussion with potential parties to a transaction as well as review potential acquisition targets for us. The Strategic Committee and representatives of Houlihan Lokey discussed the strategic rationale for a number of acquisition targets. In addition, the Strategic Committee and representatives of Houlihan discussed other uses of SST's cash including share repurchases, dividends and joint venture opportunities. The Strategic Committee instructed Houlihan Lokey to continue to facilitate discussions with potential acquisition targets.

From July until October 2009, members of our management continued to hold discussions with potential strategic and financial acquirors, including Prophet Equity, Party A and Party D. At the request of the Strategic Committee, our management also held meetings with potential acquisition targets.

On August 14, 2009, the Strategic Committee met to discuss the merits of a potential Dutch tender share buyback in an effort to maximize value for all shareholders, rather than for only specific shareholders who requested liquidity from time to time.

On August 17, 2009, the Strategic Committee met with representatives of Houlihan Lokey to further discuss the merits of a Dutch tender share buyback. Given our lack of trading and recent operating cash burn, the Strategic Committee determined it was in the best interest of all shareholders to retain our cash.

On August 20, 2009, we entered into a non-disclosure agreement with Party C, and Party C began conducting due diligence on us. Also on August 20, 2009, the Strategic Committee communicated to Party C its interest in exploring a transaction with Party C.

On September 11, 2009, our management and representatives of Houlihan Lokey met with Prophet Equity and its lending partners to discuss our recent financial performance.

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On October 9, 2009, our management, representatives of Houlihan Lokey, Party C and Party C's financial advisors held a meeting to discuss a potential transaction between SST and Party C. SST agreed to provide Party C with additional diligence information regarding SST.

On October 16, 2009, the Strategic Committee met with representatives of Houlihan Lokey to discuss the status of recent meetings with potential strategic acquirors, as well as to provide an update on the discussions involving potential acquisition targets.

During October 2009, our management continued to hold meetings with strategic and financial acquirors, as well as with potential acquisition targets.

On October 29, 2009, Prophet Equity submitted a revised proposal to acquire us for \$2.10 per share. The proposal included revised terms and conditions, and continued to include a go-shop provision. The revised proposal also included equity and debt commitment letters, from Prophet Equity and Petrus Investments L.P., respectively.

On November 3, 2009, the Strategic Committee met to discuss the revised proposal received from Prophet Equity. Representatives of Houlihan Lokey were asked to provide an overview of the proposal as well as update the Strategic Committee on the status of other discussions. The Strategic Committee instructed Houlihan Lokey to continue to negotiate with Prophet Equity. In addition, Houlihan Lokey was instructed to continue discussions with other parties.

On November 4, 2009, representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker conducted a conference call to discuss the terms of the Merger Agreement.

On November 5, 2009, the Strategic Committee met to discuss the revised proposal received from Prophet Equity. Representatives of Houlihan Lokey and Shearman & Sterling provided an update on the discussions and negotiations that occurred on November 4, 2009. Also on November 5, 2009, representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker continued to discuss the terms of the Merger Agreement and related ancillary agreements.

On November 6 through 9, 2009, representatives of Shearman & Sterling, Houlihan Lokey, Prophet Equity and Jackson Walker exchanged drafts of the Merger Agreement and related ancillary agreements, and engaged in conference calls regarding open items.

On November 10, 2009, the Strategic Committee met to discuss the revised proposal received from Prophet Equity. Representatives of Houlihan Lokey were asked to provide an update on the discussion with Prophet Equity as well other strategic and financial acquirors. The Strategic Committee asked Houlihan Lokey to conduct a potential liquidation analysis to discuss with the Strategic Committee the following day. Representatives of Shearman & Sterling reviewed with the Strategic Committee its fiduciary duties, the terms of the Merger Agreement, and the issues in the Merger Agreement that remained open. During the Strategic Committee meeting, Mr. Riley objected to our undertaking a sale of SST, and expressed the opinion that the Strategic Committee should evaluate the liquidation value of SST. Mr. Riley departed the Strategic Committee meeting prior to its conclusion. The Strategic Committee asked representatives of Houlihan Lokey to work with our management team (other than Mr. Yeh and Dr. Hu) to prepare an analysis of the liquidation value for presentation at a Strategic Committee meeting the following day. Representatives of Shearman & Sterling, Prophet Equity and Jackson Walker continued to negotiate the terms of the Merger Agreement and related ancillary agreements. Cooley delivered a revised draft of the disclosure schedules to the Merger Agreement to Prophet Equity and Jackson Walker.

On November 11, 2009, the Strategic Committee met to discuss the revised proposal received from Prophet Equity. Representatives of Houlihan Lokey reviewed their analysis regarding a potential liquidation of SST. Mr. Riley reiterated his opposition to a sale of SST based on his view that the proposed purchase price

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undervalued SST, and that a gradual wind-down and liquidation of SST would result in greater value for our shareholders. Representatives of Shearman & Sterling and Jackson Walker continued to negotiate the terms of the Merger Agreement, related ancillary agreements and the disclosure schedules to the Merger Agreement.

On November 12, 2009, the Strategic Committee met to review the current proposal from Prophet Equity. Representatives of Shearman & Sterling reviewed with the Strategic Committee its fiduciary duties, the terms of the Merger Agreement, and the resolution of the open issues in the Merger Agreement. At the request of the Strategic Committee, Houlihan Lokey was asked to render a fairness opinion. The Strategic Committee then voted to recommend that our board of directors approve the Merger Agreement and the transaction with Prophet Equity. Three of the four members of the Strategic Committee voted in favor of the transaction with Prophet Equity, and Mr. Riley voted against the transaction with Prophet Equity because he believed that the proposed purchase price undervalued SST, and that a gradual wind-down and liquidation of SST would result in greater value for our shareholders. At a meeting of our board of directors, the Strategic Committee recommended to our board of directors that it approve the Merger Agreement and the transaction with Prophet Equity. Our board of directors then voted to approve the transaction with Prophet Equity, with Mr. Yeh and Dr. Hu abstaining, and Mr. Riley voting against. Following the vote on the transaction, Mr. Riley submitted his resignation as a member of our board of directors and all its committees.

Although Party A continued to conduct diligence and engage with our management and representatives of Houlihan Lokey following its October 28, 2008 indication of interest, it never provided an updated indication of interest to acquire SST or commented on the legal documents provided by Shearman & Sterling. In addition, although they conducted diligence and met with our management several times, Parties C and D never provided an indication of interest to acquire SST.

On November 13, 2009, we and Prophet Equity, Parent and Merger Sub entered into the Merger Agreement, a limited guarantee and an equity commitment letter, Parent and Merger Sub entered into voting agreements with Mr. Yeh and Dr. Hu, and Parent, Mr. Yeh and Dr. Hu entered into a contribution agreement. We issued a press release announcing the transaction following execution of the various transaction documents and prior to the opening of trading on the Nasdaq Global Market.

Beginning November 13, 2009, under the supervision of the Strategic Committee, representatives of Houlihan Lokey began renewed contact of parties that they believed would be capable of, and might be interested in, consummating an acquisition of SST.

Reasons for the Merger of SST and Recommendation of the Board of Directors

Reasons for the Recommendation of the Strategic Committee

The Strategic Committee, acting with the advice and assistance of its independent legal and financial advisors, evaluated and negotiated the Merger proposal, including the terms and conditions of the Merger Agreement, with Parent and Merger Sub. The Strategic Committee determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable, fair to and in the best interests of the holders of SST common stock other than the Management Group and recommended to our board of directors that our board of directors (1) approve and declare advisable the Merger Agreement and the transactions contemplated thereby, including the Merger and (2) recommend the approval of the principal terms of the Merger and adoption by our shareholders of the Merger Agreement.

In the course of reaching its determination, the Strategic Committee considered the following substantive factors and potential benefits of the Merger, each of which the Strategic Committee believed supported its decision (which are not listed in any relative order of importance):

its belief that the Merger was more favorable to unaffiliated shareholders than the alternative of remaining a stand-alone, independent company, because of the uncertain returns to such shareholders if we remained independent in light of our business, operations, financial condition, strategy and

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prospects, as well as the risks involved in achieving those returns, the nature of the industry in which we compete, general industry, economic, market and regulatory conditions, both on an historical and on a prospective basis, and in particular:

its belief that it is difficult to be profitable in the memory business, which is unstable and fragmented, and changes and consolidation in the memory business need to occur for companies to have success in the industry;

its belief that SST's historical losses make it difficult to invest in next generation technology processes and products;

its belief that in order to be profitable, in-house manufacturing and an end-product business that utilizes much of the fabrication capacity is required, and the capacities of our large competitors make it difficult for us to compete and win customers. Generally, only large integrated competitors can successfully compete in the long-term;

its belief that price reductions for chips have continued, and will continue, putting downward pressure on margins;

its belief that diversifying into new products that are less flash memory related, which has been our strategy for the last five years, is extremely difficult as we have consistently underachieved our targets;

its belief that our fabrication processes significantly lag industry standards, which disadvantage us versus our competitors, and any capital expenditures to remedy this issue would be extremely expensive;

its belief that each of our business units if valued and sold separately would result in a lower overall value to shareholders due to their interdependence and lack of scale as standalone businesses;

its belief that the interdependency between the research and development efforts in our product business and the long term sustainability of our licensing business make it difficult to achieve a higher value for each of those businesses by splitting our company into multiple parts; and

its belief that the liquidation of equity investments in certain related parties would negatively impact the Company's long term sustainability and would overall result in a lower value to shareholders;

the likelihood that the Merger would be consummated, the voting agreements from Mr. Yeh and Dr. Hu in which they commit to use their best efforts to cause Parent and Merger Sub to perform their respective obligations under the Merger Agreement, including using their best efforts to provide Parent with sufficient cash to pay the Merger consideration pursuant to the Merger Agreement, and the Strategic Committee's belief, based on the information provided by Prophet Equity, that Parent had the sufficient resources to do so;

its belief that the Merger was more favorable to unaffiliated shareholders than the potential value that might result from other alternatives available to us, including the alternatives of pursuing other strategic initiatives such as a liquidation, stock repurchase, divestiture of selected assets, potential acquisition or a leveraged recapitalization, given the potential rewards, risks and uncertainties associated with those alternatives;

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the Strategic Committee's belief that \$2.10 per share was advisable and fair to and in the best interests of our unaffiliated shareholders, particularly given that after an 18 month process following the receipt of non-binding indications of interest from Party A on October 22, 2008, and from Party B on October 24, 2008, the Strategic Committee did not receive any other definitive indications of interest to acquire SST, whether from Party A, Party B, Party C or Party D or from any of the other 33 potential strategic or financial bidders;

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the current and historical market prices of the SST common stock, including the market price of the SST common stock relative to those of other industry participants and general market indices, and the fact that the cash Merger price of \$2.10 per share represented a premium of approximately 13% to the closing share price of the SST common stock on November 12, 2009, the last trading day prior to the announcement of the acquisition of SST;

the financial presentation of Houlihan Lokey, including the separate opinion of Houlihan Lokey to the effect that, as of November 13, 2009 and based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion, the Merger consideration to be received by the holders of SST common stock other than the Management Group was fair, from a financial point of view, to the holders of SST common stock other than the Management Group (see Special Factors Opinion of the Financial Advisor to SST's Strategic Committee);

the efforts made by the Strategic Committee and its advisors to negotiate and execute a Merger Agreement favorable to us;

the financial and other terms and conditions of the Merger Agreement as reviewed by the Strategic Committee, including the fact that they were the product of arm's-length negotiations between the parties;

the fact that the Merger consideration is all cash, so that the transaction allows our unaffiliated shareholders to immediately realize a fair value, in cash, for their investment and provides such shareholders certainty of value for their shares;

the fact that the terms of the Merger Agreement provide for a 45-day post-signing Go-Shop Period during which we may solicit additional interest in transactions involving us, and, after such 45-day period, continue discussions with certain persons or respond to unsolicited proposals under certain circumstances;

the fact that, subject to compliance with the terms and conditions of the Merger Agreement, our board of directors is permitted to change its recommendation or terminate the Merger Agreement, prior to the approval of the principal terms of the Merger and adoption of the Merger Agreement by our shareholders, in order to approve an alternative transaction proposed by a third party that is a superior proposal as defined in the Merger Agreement, upon the payment to Parent of: (1) a \$4,025,875 termination fee (representing approximately 2% of the total equity value of the transaction) in the event that such proposal was made by an Excluded Party, or (2) a \$7,045,281 termination fee (representing approximately 3.5% of the total equity value of the transaction) in the event that such proposal was made by any other party; and

the availability of dissenters' rights to holders of the SST common stock who comply with all of the required procedures under Chapter 13 of the California Corporations Code, which allows such holders to demand that we purchase their shares for the fair market value of their shares.

The Strategic Committee also considered a number of factors relating to the procedural safeguards involved in the negotiation of the Merger, including those discussed below, each of which it believed supported its decision and provided assurance of the fairness of the Merger to our unaffiliated shareholders (which are not listed in any relative order of importance):

the fact that, other than for customary fees payable to members of the Strategic Committee (that were not contingent on the Strategic Committee's recommendation of a transaction or the consummation of a transaction), the directors (other than Mr. Yeh and Dr. Hu) will not receive any consideration in connection with the Merger that is different from that received by any other of our unaffiliated shareholders;

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the fact that negotiations were conducted under the oversight of a Strategic Committee comprised solely of independent directors who are not our employees and who have no financial interest in the Merger that is different from that of our unaffiliated shareholders;

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the fact that the Strategic Committee retained and received advice and assistance from its own independent financial and legal advisors in evaluating, negotiating and recommending the terms of the Merger Agreement;

the fact that the Strategic Committee had ultimate authority to decide whether or not to proceed with a transaction or any alternative thereto, subject to our board of directors' approval of the Merger Agreement;

the fact that the financial and other terms and conditions of the Merger Agreement were the product of arm's-length negotiations between the Strategic Committee and its independent advisors, on the one hand, and Prophet Equity and its advisors, on the other hand;

the fact that, in addition to approval by the holders of a majority of the outstanding shares of SST common stock, the Merger Agreement must be adopted and the principal terms of the Merger must be approved by the affirmative vote of the holders of a majority of the outstanding shares of SST common stock represented and voting at the Special Meeting, excluding shares held by Mr. Yeh and Dr. Hu;

the fact that the opinion of Houlihan Lokey addresses the fairness, from a financial point of view, to the holders of SST common stock other than the Management Group, of the Merger consideration to be received by such holders in the Merger;

the fact that we are permitted under certain circumstances to solicit and respond to inquiries regarding acquisition proposals and, upon payment of a termination fee, to terminate the Merger Agreement in order to complete a superior transaction; and

the fact that under California law, our shareholders have the right to demand appraisal of their shares.

The Strategic Committee also considered a variety of risks and other potentially negative factors concerning the Merger Agreement and the Merger, including the following (which are not listed in any relative order of importance):

the fact that (1) Mr. Riley voted against the approval of the Merger Agreement both as a member of the Strategic Committee, and as a member of our board of directors, because he believed, among other things, that (A) the proposed purchase price undervalued SST, (B) it was premature to sell SST before giving a new management team an opportunity to increase shareholder value, (C) a strategy of divesting manufacturing operations and focusing on SST's licensing business could increase shareholder value and (D) a gradual wind-down and liquidation of SST could also result in greater value for our shareholders, and (2) Mr. Riley subsequently resigned as a member of our board of directors and all its committees on November 12, 2009 (although the Strategic Committee was mindful that on February 13, 2009, during the Strategic Committee's review of alternatives, Mr. Riley reduced his holdings in SST by 37% at a price below \$2.10 and made multiple requests to members of our management, the Strategic Committee and our board of directors to repurchase all shares of SST common stock controlled by him and certain other shareholders, in addition to implementing broad-based stock repurchase programs);

the terms of Mr. Yeh's and Dr. Hu's participation in the Merger and the fact that Mr. Yeh and Dr. Hu have interests in the transaction that are different from, or in addition to, those of our other shareholders;

the risks and costs to us if the Merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential effect on our business;

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the fact that our unaffiliated shareholders will not participate in any of our future earnings or growth and will not benefit from any appreciation in our value, including any appreciation in value that could be realized as a result of improvements to our operations;

the fact that Parent and Merger Sub have a financing out;

the fact that after the expiration of the Go-Shop Period, we cannot, under the terms of the Merger Agreement, solicit other acquisition proposals other than in certain circumstances;

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the restrictions on the conduct of our business prior to the completion of the Merger, requiring us to conduct our business only in the ordinary course, subject to specific limitations, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the Merger;

the fact that an all cash transaction would be taxable to our shareholders that are U.S. persons for U.S. federal income tax purposes (as defined under Special Factors Material U.S. Federal Income Tax Consequences of the Merger);

the fact that we are entering into a Merger Agreement with a newly formed corporation with essentially no assets and, accordingly, that our remedy in connection with a breach of the Merger Agreement by Parent or Merger Sub is limited to (1) a \$4,025,875 termination fee (representing approximately 2% of the total equity value of the transaction) in the event the Merger Agreement is terminated during the 45-day Go-Shop Period, or (2) a \$7,045,281 termination fee (representing approximately 3.5% of the total equity value of the transaction) in the event that the Merger Agreement is terminated after the end of the Go-Shop Period;

the requirement that, if the Merger Agreement is terminated under specified circumstances, we must pay a termination fee of \$7,045,281 unless such termination arises as a result of a superior proposal submitted by an Excluded Party, in which case we must pay a fee of \$4,025,875; and the expenses of Parent, up to \$2,000,000 (or a higher amount that may be agreed to by Parent and our board of directors), which amount shall be deducted from any termination fee that may be payable by SST; and

the fact that, even if the Merger is not completed, we will be required to pay our legal and accounting fees, a portion of our investment banking fees, and other miscellaneous fees.

The foregoing discussion summarizes the material factors considered by the Strategic Committee in its consideration of the Merger, but is not meant to be an exhaustive description of the information and factors considered by the Strategic Committee. After considering these factors, the Strategic Committee concluded that the positive factors relating to the Merger Agreement and the Merger outweighed the potential negative factors and determined that the Merger and the Merger Agreement are fair to, and in the best interests of, SST's shareholders. In view of the wide variety of factors considered by the Strategic Committee, and the complexity of these matters, the Strategic Committee did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of the Strategic Committee may have assigned different weights to various factors. The Strategic Committee approved and recommended the Merger Agreement and the Merger based upon the totality of the information presented to and considered by it.

Reasons for the Recommendation of the Board of Directors

Our board of directors, other than Mr. Yeh and Dr. Hu, acting upon the recommendation of the Strategic Committee, at a meeting described above on November 12, 2009, (1) determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable, fair to and in the best interests of the holders of SST common stock other than the Management Group; (2) approved the Merger Agreement and the transactions contemplated thereby, including the Merger and (3) recommended the approval of the principal terms of the Merger and adoption by our shareholders of the Merger Agreement. In reaching these determinations, our board of directors considered (1) the financial presentation of Houlihan Lokey that was prepared for the Strategic Committee and which was delivered to our board of directors at the request of the Strategic Committee, as well as the fact that the Strategic Committee received opinions delivered by Houlihan Lokey as to the fairness, from a financial point of view, to holders of SST common stock, other than the Management Group, of the Merger consideration to be received by such holders in the Merger and (2) the recommendation and analysis of the Strategic Committee, as described above, and adopted such recommendation and analysis in reaching its determinations.

The foregoing discussion summarizes the material factors considered by our board of directors in its consideration of the Merger. In view of the wide variety of factors considered by our board of directors, and the

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complexity of these matters, our board of directors did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of our board of directors may have assigned different weights to various factors. The board of directors approved and recommends the Merger Agreement and the Merger based upon the totality of the information presented to and considered by it.

Mr. Yeh and Dr. Hu, who have each agreed to exchange their shares of SST common stock, including beneficially held shares, for capital stock in Parent after the Merger, recused themselves from the foregoing determination and approval due to their involvement in the transaction. Mr. Riley voted against the transaction.

Our board of directors recommends that you vote FOR the approval of the principal terms of the Merger and adoption of the Merger Agreement.

Opinion of the Financial Advisor to SST's Strategic Committee

On November 12, 2009, Houlihan Lokey rendered an oral opinion to the Strategic Committee (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated November 13, 2009), to the effect that, as of November 13, 2009 and based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion, the Merger consideration to be received by the holders of SST common stock other than the Management Group was fair, from a financial point of view, to the holders of SST common stock other than the Management Group.

Houlihan Lokey's opinion was directed to the Strategic Committee and only addressed the fairness from a financial point of view of the Merger consideration to be received by the holders of SST common stock other than the Management Group and does not address any other aspect or implication of the Merger. The summary of Houlihan Lokey's opinion in this proxy statement is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex B to this proxy statement and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. We encourage our shareholders to carefully read the full text of Houlihan Lokey's written opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this proxy statement are intended to be, and do not constitute, advice or a recommendation to the Strategic Committee or any shareholder as to how to act or vote with respect to the Merger or related matters.

In arriving at its opinion, Houlihan Lokey, among other things:

reviewed the following agreements and documents:

draft of the Merger Agreement;

draft of the form of the contribution agreement entered into between Parent, Mr. Yeh and Dr. Hu;

reviewed certain publicly available business and financial information relating to SST that Houlihan Lokey deemed to be relevant;

reviewed certain information relating to the historical, current and future operations, financial condition and prospects of SST made available to Houlihan Lokey by SST, including (a) regularly prepared financial projections relating to SST through the end of 2010 prepared by management of SST, and financial projections extrapolated therefrom through the end of 2014 based on discussions with management of SST (such financial projections being collectively referred to herein as the Financial Projections), and (b) a liquidation analysis prepared by management of SST;

spoke with certain members of the management of SST regarding the business, operations, financial condition and prospects of SST, the Merger and related matters;

compared the financial and operating performance of SST with that of other public companies that Houlihan Lokey deemed to be relevant;

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considered the publicly available financial terms of certain transactions that Houlihan Lokey deemed to be relevant;

reviewed the current and historical market prices and trading volume for SST common stock, and the historical market prices and certain financial data of the publicly traded securities of certain other companies that Houlihan Lokey deemed to be relevant;

reviewed a certificate addressed to Houlihan Lokey from senior management of SST which contains, among other things, representations regarding the accuracy of the information, data and other materials (financial or otherwise) provided to, or discussed with, Houlihan Lokey by or on behalf of SST; and

conducted such other financial studies, analyses and inquiries and considered such other information and factors as Houlihan Lokey deemed appropriate.

Houlihan Lokey relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to Houlihan Lokey, discussed with or reviewed by Houlihan Lokey, or publicly available, and did not assume any responsibility with respect to such data, material and other information. In addition, management of SST advised Houlihan Lokey, and Houlihan Lokey assumed, that the Financial Projections and liquidation analysis reviewed by Houlihan Lokey were reasonably prepared on bases reflecting the best currently available estimates and judgments of such management as to the future financial results and condition of SST, and Houlihan Lokey expressed no opinion with respect to such projections or the assumptions on which they were based. Houlihan Lokey relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of SST since the date of the most recent financial statements provided to Houlihan Lokey and that there was no information or any facts that would make any of the information reviewed by Houlihan Lokey incomplete or misleading, in each case that would have been material to its analyses or the opinion.

Houlihan Lokey relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the agreements identified in the first bullet point above and all other related documents and instruments that are referred to therein were true and correct, (b) each party to all such agreements and other related documents and instruments would fully and timely perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the Merger would be satisfied without waiver thereof, and (d) the Merger would be consummated in a timely manner in accordance with the terms described in the agreements and documents provided to Houlihan Lokey, without any amendments or modifications thereto, in each case other than as would not be material to Houlihan Lokey's analyses or the opinion. Houlihan Lokey also relied upon and assumed, without independent verification, that (1) the Merger would be consummated in a manner that complies in all respects with all applicable federal and state statutes, rules and regulations, and (2) all governmental, regulatory, and other consents and approvals necessary for the consummation of the Merger would be obtained and that no delay, limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would result in the disposition of any material portion of the assets of SST or have an effect on SST that would be material to Houlihan Lokey's analyses or the opinion. In addition, Houlihan Lokey relied upon and assumed, without independent verification, that the final forms of the Merger Agreement and the contribution agreement entered into between Parent, Mr. Yeh and Dr. Hu would not differ in any respect from the drafts of the Merger Agreement and the form of the contribution agreement identified above.

Furthermore, in connection with its opinion, Houlihan Lokey was not requested to make, and did not make, any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of SST or any other party, nor was Houlihan Lokey provided with any such appraisal or evaluation. Houlihan Lokey was, however, provided a copy of the liquidation analysis identified in the third bullet point above, and Houlihan Lokey relied upon and assumed, without independent verification, the accuracy of the conclusions set forth therein with respect to amounts and

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values other than those related to securities valuation. Houlihan Lokey did not estimate, and expressed no opinion regarding, the liquidation value of any entity or asset. Houlihan Lokey did not undertake any independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which SST is or may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which SST is or may be a party or is or may be subject. The opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Houlihan Lokey as of, November 13, 2009. Houlihan Lokey did not undertake, and is under no obligation, to update, revise, reaffirm or withdraw its opinion, or otherwise comment on or consider events occurring after November 13, 2009.

Houlihan Lokey's opinion was furnished for the use and benefit of the Strategic Committee in connection with its consideration of the Merger and may not be used for any other purpose without Houlihan Lokey's prior written consent. Houlihan Lokey's opinion should not be construed as creating any fiduciary duty on Houlihan Lokey's part to any party. The opinion was not intended to be, and does not constitute, a recommendation to the Strategic Committee, our board of directors, any security holder or any other person as to how to act or vote with respect to any matter relating to the Merger.

Houlihan Lokey was not been requested to opine as to, and its opinion did not express an opinion as to or otherwise address, among other things: (1) the underlying business decision of the Strategic Committee, SST, its security holders or any other party to proceed with or effect the Merger, (2) the terms of any arrangements, understandings, agreements or documents related to, or the form or any other portion or aspect of, the Merger or otherwise (other than the consideration in the Merger to the extent expressly specified therein), (3) the fairness of any portion or aspect of the Merger to the holders of any class of securities, creditors or other constituencies of SST or to any other party, except as expressly set forth in the last sentence of the opinion, (4) the relative merits of the Merger as compared to any alternative business strategies that might exist for SST or any other party or the effect of any other transaction in which SST or any other party might engage, (5) the fairness of any portion or aspect of the Merger to any one class or group of SST's or any other party's security holders vis-à-vis any other class or group of SST's or such other party's security holders (including, without limitation, the allocation of any consideration amongst or within such classes or groups of security holders), (6) whether or not SST, our respective security holders or any other party is receiving or paying reasonably equivalent value in the Merger, (7) the solvency, creditworthiness or fair value of SST or any other participant in the Merger under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or (8) the fairness, financial or otherwise, of the amount or nature of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the Merger, any class of such persons or any other party, relative to the consideration in the Merger or otherwise. Furthermore, no opinion, counsel or interpretation was intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It was assumed that such opinions, counsel or interpretations were or would be obtained from the appropriate professional sources. Furthermore, Houlihan Lokey relied, with the consent of the Strategic Committee, on the assessments by the Strategic Committee, SST and their respective advisers, as to all legal, regulatory, accounting, insurance and tax matters with respect to SST and the Merger.

In preparing its opinion to the Strategic Committee, Houlihan Lokey performed a variety of analyses, including those described below. The summary of Houlihan Lokey's analyses is not a complete description of the analyses underlying Houlihan Lokey's opinion. The preparation of a fairness opinion is a complex process involving various quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytical methods employed and the adaptation and application of these methods to the unique facts and circumstances presented. As a consequence, neither a fairness opinion nor its underlying analyses is readily susceptible to summary description. Houlihan Lokey arrived at its opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any individual analysis, methodology or factor. Accordingly, Houlihan Lokey believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, methodologies and factors or focusing on information presented in tabular format, without considering all

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analyses, methodologies and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying Houlihan Lokey's analyses and opinion. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques.

In performing its analyses, Houlihan Lokey considered general business, economic, industry and market conditions, financial and otherwise, and other matters as they existed on, and could be evaluated as of, the date of the opinion. Houlihan Lokey's analyses involved judgments and assumptions with regard to industry performance, general business, economic, regulatory, market and financial conditions and other matters, many of which are beyond the control of SST, such as the impact of competition on the business of SST and on the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of SST or the industry or in the markets generally. No company, transaction or business used in Houlihan Lokey's analyses for comparative purposes is identical to SST or the Merger and an evaluation of the results of those analyses is not entirely mathematical. Houlihan Lokey believes that mathematical derivations (such as determining average and median) of financial data are not by themselves meaningful and should be considered together with qualities, judgments and informed assumptions. The estimates contained in SST's analyses and the implied reference range values indicated by Houlihan Lokey's analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, any analyses relating to the value of assets, businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold, which may depend on a variety of factors, many of which are beyond the control of SST. Much of the information used in, and accordingly the results of, Houlihan Lokey's analyses are inherently subject to substantial uncertainty.

Houlihan Lokey's opinion was provided to the Strategic Committee in connection with its consideration of the Merger and was only one of many factors considered by the Strategic Committee in evaluating the Merger. Neither Houlihan Lokey's opinion nor its analyses were determinative of the consideration in the Merger or of the views of the Strategic Committee or management with respect to the Merger or the Merger consideration. The type and amount of consideration payable in the Merger were determined through negotiation between the Strategic Committee and Prophet Equity, and the decision to enter into the Merger was solely that of the Strategic Committee.

The following is a summary of the material analyses reviewed by Houlihan Lokey with the Strategic Committee on November 12, 2009 in connection with Houlihan Lokey's opinion. The order of the analyses does not represent relative importance or weight given to those analyses by Houlihan Lokey. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the methodologies underlying, and the assumptions, qualifications and limitations affecting, each analysis, could create a misleading or incomplete view of Houlihan Lokey's analyses.

For purposes of its analyses, Houlihan Lokey reviewed a number of financial metrics, including:

Enterprise Value calculated as the value of the relevant company's outstanding equity securities (taking into account its outstanding warrants and other convertible securities) based on the relevant company's closing stock price, or equity value, plus net debt (calculated as outstanding indebtedness, preferred stock and capital lease obligations less the amount of cash on its balance sheet), as of a specified date.

Earnings before interest, taxes, depreciation, and amortization, adjusted for certain non-recurring items, or EBITDA.

Net income divided by the number of the company's outstanding equity securities (taking into account its outstanding warrants and other convertible securities), adjusted for certain non-recurring items, or EPS.

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Unless the context indicates otherwise, enterprise values and equity values derived from the selected companies analysis described below were calculated using the closing price of SST common stock and the common stock of the selected computer memory companies listed below as of November 10, 2009, and transaction values for the target companies derived from the selected transactions analysis described below were calculated as of the announcement date of the relevant transaction based on the estimated purchase prices paid in the selected transactions. Accordingly, this information may not reflect current or future market conditions. Unless the context indicates otherwise, estimates of each of revenue for calendar year 2009, or CY09 Revenue, EBITDA for calendar year 2009, or CY09 EBITDA, and for calendar year 2009, were based on certain research analyst estimates. In addition, unless the context indicates otherwise, per share reference range amounts for SST were based on assumptions of (1) 95.9 million shares outstanding, and (2) net debt of \$(180.0) million, in each case, as per our 10-Q filing for the period ended September 30, 2009. The net debt amount reflects SST's estimated value of certain debt and equity securities and other investments.

Selected Companies Analysis. Houlihan Lokey calculated multiples of enterprise value and price per share based on certain financial data for SST and certain selected computer memory companies. The calculated multiples included: (1) enterprise value to revenue for the most recently reported twelve months for which financial information has been made public, or LTM Revenue, (2) enterprise value to CY09 Revenue, (3) enterprise value to earnings LTM EBITDA, (4) enterprise value to CY09 EBITDA, (5) price per share to LTM EPS, and (6) price per share to CY09 EPS. The list of selected companies and the related financial data for such selected companies and for SST are set forth below:

	Enterprise Value / Revenue(3)		Enterprise Value / EBITDA(2),(3)		Price / EPS(1),(2),(3)	
	LTM	CY 09	LTM	CY 09	LTM	CY 09
Computer Memory Companies						
Infineon Technologies AG	0.5x	0.5x	6.3x	4.1x	NEG	NEG
SanDisk Corp.	0.7x	0.6x	NEG	3.2x	NEG	16.8x
Integrated Silicon Solution Inc.	0.2x	0.2x	NEG	NEG	NEG	NEG
Toshiba Corp.	0.5x	0.5x	12.7x	7.6x	NEG	NEG
Imation Corp.	0.1x	0.1x	7.6x	4.9x	NEG	NM
Entorian Technologies, Inc.	0.3x	NA	NEG	NA	NEG	NA
Netlist Inc.	0.1x	NA	NEG	NA	NEG	NA
Samsung Electronics Co. Ltd.	0.7x	0.6x	5.3x	3.8x	19.5x	NM
Macronix International Co. Ltd.	1.3x	1.2x	3.8x	3.6x	12.8x	10.0x
SMART Modular Technologies (WWH) Inc.	0.4x	0.4x	6.5x	5.2x	14.5x	NM
Elpida Memory Inc.(4)	2.4x	2.0x	NEG	NM	NEG	NEG

(1) NEG Denotes Negative

(2) NM Denotes Not Meaningful

(3) NA Denotes Not Available

(4) Excluded from ranges and averages data; recently received rescue financing.

The calculated multiple ranges and averages for the selected companies were as follows:

	Enterprise Value / Revenue		Enterprise Value / EBITDA		Price / EPS	
	LTM	CY 09	LTM	CY 09	LTM	CY 09
High	1.3x	1.2x	12.7x	7.6x	19.5x	16.8x
Low	0.1x	0.1x	3.8x	3.2x	12.8x	10.0x
Mean	0.5x	0.5x	7.0x	4.6x	15.6x	13.4x
Median	0.4x	0.5x	6.4x	4.1x	14.5x	13.4x

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Houlihan Lokey compared the following selected multiple ranges derived from the selected companies analysis referred to above to corresponding financial data for SST, provided that the financial data for SST was adjusted to exclude non-recurring items.

The selected multiples range from the selected companies analysis indicated the following ranges and averages:

	Enterprise Value / Revenue		Enterprise Value / EBITDA		Price / EPS	
	LTM	CY 09	LTM	CY 09	LTM	CY 09
High	0.7x	0.6x	12.7x	7.6x	19.5x	16.8x
Low	0.1x	0.1x	3.8x	3.2x	12.8x	10.0x
Mean	0.5x	0.5x	7.0x	4.6x	15.6x	13.4x
Median	0.4x	0.5x	6.4x	4.1x	14.5x	13.4

The selected companies analysis indicated the following implied per share reference ranges for SST, as compared to the proposed per share consideration:

	Enterprise Value / Revenue		Enterprise Value / EBITDA		Price / EPS	
	LTM	CY 09	LTM	CY 09	LTM	CY 09
Implied Reference Range	\$ 3.61-\$2.08	\$ 3.46-\$2.23	NEG	NEG	NEG	NEG
Consideration		\$2.10		\$2.10		\$2.10