

**INDEPENDENT APPRAISAL VALUATION OF
THE COMMON STOCK OF:**

**Ad Concepts, Inc.
– DRAFT REPORT –**

**Valuation Date: August 31, 2014
Report Date: January 22, 2015**

Prepared by:

OXFORD

VALUATION PARTNERS

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TABLE OF CONTENTS

APPRAISER'S OPINION LETTER

ENGAGEMENT OVERVIEW

Purpose and Scope of Valuation

Approach to Valuation

Limiting Conditions

Summary of Findings

COMPANY OVERVIEW

Description Of The Business

Management Team

Summary Financial Information

Capital Structure

INDUSTRY CONDITIONS

Description Of The Industry

Competitors

CURRENT ECONOMIC CONDITIONS

VALUATION THEORY AND CONSIDERATIONS

Determining Stockholders' Equity Value

Equity Value Allocation

Premiums And Discounts

VALUATION OF THE COMPANY

Approaches Considered And Applied

Selection Of Methodology And Weighing

Allocation Of Equity

Analysis

Discounts

SUMMARY AND RESULTS

STATEMENT OF LIMITING CONDITIONS

CERTIFICATION

APPENDICES

January 22, 2015

Dan Roper
VP Finance
Ad Concepts, Inc.
488 Wellington St. West, #202
Toronto, ON M5V 1E3
Canada

Re: Valuation of Ad Concepts

Dear Mr. Roper,

At your request and pursuant to our engagement agreement, we have prepared and enclosed herewith our appraisal report of Ad Concepts, Inc. (“Ad Concepts” or “the Company”) as of August 31, 2014 (the “Valuation Date”). The purpose of this valuation is to establish the fair market value as of the Valuation Date of one share of common stock of the Company for the purposes of financial statement preparation and reporting under generally accepted accounting principles. This valuation opinion may be used for compliance purposes in conjunction with Internal Revenue (IRS) Code section 409A. It is anticipated that this valuation will be used to assist the Board of Directors of the Company in determining the potential strike price of options to be used on or subsequent to the appraisal. It is our understanding that the valuation requirements for the intended use require an analysis of the per-share value of the chosen equity on a closely held, non-marketable, minority basis.

Ad Concepts is a closely held company without a publicly traded market. As such, the objective of this valuation is not to determine the price or fair market value at which a controlling interest in the Company would sell as if publicly traded. Rather, the objective is to quantify the fair market value of an ownership interest in Ad Concepts, as a closely held entity, on a minority basis.

The standard of value is “fair market value.” Fair market value is defined by IRS Revenue Ruling 59-60, 1959-1, C.B. 237 as “the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.” RR59-60 also states that “in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and the market for such property.”

For the purposes of this engagement, Oxford Valuation Partners has assumed that fair market value is equivalent to “fair value” which is defined as *the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

Users of this valuation report should be aware that business valuations are based on asset values and future earnings potential that may or may not materialize. Therefore, the actual results achieved and/or assets values obtained will vary from the forecasts used in this report, and the variations may be material.

In our opinion, based on our study and analysis, and the assumptions and limiting conditions as described in this report, and taking into account the fully diluted shareholdings outstanding of the company as of the Valuation Date, we have concluded that the fair market value of the common shares on a closely held, minority, non-marketable interest in Ad Concepts as of the Valuation Date is:

Per common share: \$0.24 (TWENTY FOUR CENTS)

This letter and report are to be distributed only in their entirety, and are intended and restricted for use by the management of Ad Concepts and their representatives relative to the aforementioned purpose. This report is not to be copied or made available to any persons without the express written consent of Oxford Valuation Partners.

We appreciate the opportunity to provide valuation services to Ad Concepts. Our valuation is subject to the attached Statement of Limiting Conditions. Should you require any further information, please contact Sanjay Gandhi at 212-464-7178.

Respectfully submitted,

A handwritten signature in black ink, consisting of the letters 'OVP' in a stylized, cursive font.

Oxford Valuation Partners, Inc.
info@oxfordvp.com

January 22, 2015

ENGAGEMENT OVERVIEW

Purpose and Scope of Valuation

Oxford Valuation Partners has been retained by the Company and has prepared this report for the purpose of expressing its opinion as to the fair market value of the common shares in the Company on a closely held, minority basis as of the Valuation Date. This report is intended to present an objective, unbiased opinion of value for the exclusive purpose mentioned previously.

It is a *restricted use* valuation appraisal intended only for the purposes indicated herein. A restricted use report is limited in scope. Specifically, our report may not be used in any filings with the Securities and Exchange Commission (“SEC”). In the event that the SEC requests a copy of this valuation report, the Company and Oxford Valuation Partners agree that Oxford Valuation Partners will provide a full scope, self-contained valuation report for submission to the SEC. The Company may not require Oxford Valuation Partners to reconcile this restricted use report to any final formal report that may be prepared for submission to the SEC.

Neither this letter nor the attached valuation report may be referred to or quoted in any prospectus, loan agreement or other agreement or document given to third parties without our prior written consent. This report is not designed or intended to be a document suitable for use in selling this business to outside individuals or other entities which may be uninformed about the entity being valued. Because this report is to be used for management purposes, it may not contain sufficient descriptive information to satisfy an uninformed prospective buyer of the subject Company. It is also not designed to adequately portray all of the desirable qualities of the business, which should be addressed in an offering document designed for a potential buyer of the business.

In this appraisal we have considered the Company’s equity and capitalization structure; incorporating guidance from Management regarding authorized but unissued equity instruments that are expected to be issued in the **near term**. For this purpose we have defined “near term” as the sooner of 12 months or date of expected future financing, as proxies for events/timelines that would drive a review of the company’s valuation.¹

A *restricted use* appraisal report is intended solely for the use of Management of the Company. It should be shared with those of your advisors who have the requisite

¹This is in accord with the AICPA Practice Aid, “Valuation of Equity Securities in Complex Capital Structures” section 6.35, which states that in general, because the OPM considers the evolution of the equity value without allowing for proceeds raised in additional financings, the allocation does not include the dilution impacts of any additional financings, nor the dilution impacts of any options and warrants that may be issued as the company progresses toward a future liquidity event. That is, even if the company has reserved a pool of options that may be issued to new and existing employees as the company progresses toward a successful liquidity event, only outstanding options and options that will be issued in the short term, irrespective of any changes in the company’s value, are included in the allocation.

knowledge to understand the risks, opportunities, and the valuation theories and analyses discussed and applied in this situation, since this report may not be understood properly by other readers without additional information contained in the work files of Oxford Valuation Partners. This report should not be distributed to third parties without the express knowledge and written consent of Oxford Valuation Partners.

Approach to Valuation

This valuation engagement was conducted in accordance with the AICPA's "Statement on Standards for Valuation Services No. 1- Valuation of a Business, Business Ownership Interest, or Intangible Assets" ("SVSS No. 1"), AICPA's practice aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation* (the "Practice Aid") and with Internal Revenue Manual *Business Valuation Guidelines*. The standards deal with the procedures and reporting requirements to be followed in the preparation of an appraisal, analysis or opinion.

In our determination of value, we have considered certain factors set forth by the Internal Revenue Service in Revenue Ruling 59-60 for the valuation of security interests in closely held businesses. These factors include:

- The nature of the business and the history of the enterprise from its inception
- The general economic outlook and the condition and outlook of the specific industry in particular
- The book value of the stock and the financial condition of the business
- The size of the block of equity interest to be valued
- The market price of the stock of corporations engaged in the same or similar line of business, having their stock actively traded in a free and open market, either in an exchange or over-the-counter

We studied, analyzed, and interpreted both internal and external factors that could influence the value of Ad Concepts.

Internal factors included the Company's financial position, results of operations, and management, as well as the size and marketability of the interest being valued.

External factors included, among other things, the status of the industry and the position of the Company relative to the industry.

In performing our work, our investigation and analysis included, but was not necessarily limited to, the following steps:

- Interviews with management concerning the assets, financial and operating history, forecasted future operations of the Company, the outlook for the Company and the industry sector in which it operates, the state of competition in its primary and adjacent markets, and the assumptions underlying any plans or estimates as well as risk factors that could affect future performance;
- Analysis of audited and unaudited historical and forecast financial statements and other financial and operational data concerning the Company;
- Review of corporate documents, including but not limited to, the articles of incorporation or other descriptions of the preferred shareholder rights and capitalization summary of preferred and common shares, options and warrants;
- Independent research concerning the Company, its financial and operating history, the nature of its products and services, and its competitive position in the marketplace;
- Independent research concerning the industry;
- Research and analysis concerning comparable public companies, and transactions involving comparable public and private companies;
- Independent research concerning the relevant economic conditions and outlook for the United States economy;
- Valuation analysis utilizing appropriate methodologies from among the income approach, market approach and asset approach;
- Allocation of value analysis utilizing appropriate methodologies from among the current value method, probability-weighted return method and the option pricing method;
- Consideration of premiums and/or discounts such as control premiums, minority interest discounts, voting control adjustments, and lack of marketability discounts

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted auditing standards (GAAS). The objective of a GAAS examination is to express an opinion regarding the fair presentation of historical or prospective financial statements or other financial information presented in accordance with generally accepted accounting principles (GAAP). Since we did not perform an examination in accordance with GAAS, we express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information

provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

In conducting this valuation engagement we considered all material information required to reach a reasoned conclusion as to the value of the preferred stock of the Company, given its stage of development and operating context, and in accordance with prevailing national standards of appraisal as set forth by the AICPA and other national bodies.

Our valuation appraisal involved research and analysis concerning guideline public companies, and transactions involving comparable public and private companies, so as to establish comparative benchmarks for valuation purposes. Finally, our process included analysis and estimation of the fair market value of the preferred equity of the Company, on a per-share basis, as of the Valuation Date.

Any material events that took place after the Valuation Date, and prior to the Report Date, which were reasonably knowable at the time of the Valuation Date, have been taken into consideration in our analysis in accordance with the guidelines established in the Practice Aid.

Limiting Conditions

We urge readers to study the *Statement of Limiting Conditions* which is included as part of this report. Additionally, numerous assumptions are included throughout this report. Therefore, readers should study the entire report in order to obtain an understanding of the value estimate contained herein.

Summary of Findings

In our opinion, based on our study and analysis, and the assumptions and limiting conditions as described in this report, and taking into account the fully diluted shareholdings outstanding of the company as of the Valuation Date, we have concluded that the fair market value of one share of common stock on a closely held, minority, non-marketable basis in Ad Concepts as of the Valuation Date is:

Per common share: \$0.24 (TWENTY FOUR CENTS)

COMPANY OVERVIEW

Description of the Business

Ad Concepts was founded in 2008 with headquarters in Richmond, Virginia. The Company also has offices in Charlotte, Houston, and Chicago, with satellite offices in Los Angeles, London, Boston, Atlanta and Dallas.

Ad Concepts is a programmatic advertising company, purpose-built for the marketer. Relevant and timely advertising campaigns that produce rich customer insights are created through the use of intent data and technology. The Company assists marketers with raising brand awareness, customer prospecting, and existing customer retargeting in order to improve the efficiency of digital media spend.

The Company's proprietary platform combines data management and media buying in one solution. The Company leverages client data, 3rd party data, and proprietary search data in the platform, which allows marketers to target audiences in real time. Using the data collected along with algorithms, Ad Concepts is able to precisely identify the client's audience and efficiently buy advertising inventory across legacy and emergent digital media platforms. The platform is sold directly to Brands and Agencies of Brands.

The Company's customer base is across the Retail, Fashion, Travel, Education and B2B industries. Clients include Lego, Hewlett Packard, Lands' End, Capital One, Marriott, Grand Canyon University and Target.

While Ad Concepts has recently experienced a high level of Revenue Growth, a pilot project with Neiman Marcus in early 2014 did not go as planned. As a result, Ad Concepts revised down projected 2015 Revenue.

Jordy Robinson, a Company Founder sold 200,000 shares of Common Stock to Investors in the Series B Preferred Round in December, 2013.

Management Team

The Company's management team consists of:

Patrice Robinson – CEO
Margaret Ross – CPO
Jordy Robinson – CTO
Dan Roper – VP Finance
Kathleen Ritz – VP Marketing
Roger Ireson – VP Operations
Donald Devane – VP Client Services
Christine Shreve - CRO

Summary Financial Information - Balance Sheet

Summarized below is historical balance sheet information up to the Valuation Date. All information is based on financial statements provided by Management.

Historical Balance Sheets - As Reported				
As of December 31,	2011	2012	2013	As of 08/31/14
Assets				
Cash and Equivalents	\$ 1,103,440	\$ 1,899,765	\$ 2,909,273	\$ 589,253
Accounts Receivable	\$ 68,567	\$ 98,632	\$ 493,188	\$ 759,029
Prepaid Expenses and Sundry Receivables	\$ 40,710	\$ -	\$ -	\$ -
Other Current Assets	\$ -	\$ 92,657	\$ 197,056	\$ 312,017
Total Current Assets	\$ 1,212,717	\$ 2,091,054	\$ 3,599,516	\$ 1,660,299
Fixed Assets, Net	\$ 31,137	\$ 34,251	\$ 37,676	\$ 41,443
Intangible Assets, Net	\$ 5,898	\$ 22,898	\$ 21,911	\$ 21,911
Total Assets	\$ 1,249,752	\$ 2,148,202	\$ 3,659,103	\$ 1,723,653
Liabilities and Shareholders' Equity				
Liabilities				
Accounts Payable	\$ 619,972	\$ 1,596,496	\$ 4,625,379	\$ 2,308,900
Current Portion of Long Term Debt	\$ -	\$ -	\$ 200,000	\$ 500,000
Government Remittances Payable	\$ 527	\$ -	\$ -	\$ -
Bonus Payable	\$ 230,563	\$ -	\$ -	\$ -
Credit Cards Payable	\$ -	\$ 28,585	\$ 61,360	\$ 79,703
Other Current Liabilities	\$ -	\$ 71,200	\$ 17,244	\$ 30,000
Total Current Liabilities	\$ 851,062	\$ 1,696,280	\$ 4,903,983	\$ 2,918,602
Long-Term Debt	\$ 235,430	\$ -	\$ 1,205,413	\$ 1,651,480
Fed Dev Loan LT	\$ -	\$ 794,984	\$ 825,766	\$ 1,825,436
Accrued Interest	\$ -	\$ -	\$ -	\$ 23,084
Total Long Term Liabilities	\$ 235,430	\$ 794,984	\$ 2,031,179	\$ 3,500,000
Total Liabilities	\$ 1,086,492	\$ 2,491,264	\$ 6,935,162	\$ 6,418,602
Total Shareholders' Equity	\$ 163,260	\$ (343,062)	\$ (3,276,060)	\$ (4,694,949)
Total Liabilities and Shareholders' Equity	\$ 1,249,752	\$ 2,148,202	\$ 3,659,103	\$ 1,723,653

Summary Financial Information - Income Statement

Summarized below are selected historical results of the Company up to the Valuation Date. All information is based on financial statements provided by Management.

Historical Income Statements - As Reported				
Fiscal Year Ended December 31,	2011	2012	2013	LTM Ended 8/31/2014
Total Revenues	\$ 834,234	\$ 1,200,023	\$ 6,000,450	\$ 9,234,854
Total Cost of Revenues	\$ 125,135	\$ 120,002	\$ 1,800,135	\$ 2,770,456
Gross Profit	\$ 709,099	\$ 1,080,021	\$ 4,200,315	\$ 6,464,398
Total Operating Expenses (Excluding D&A)	\$ 1,001,081	\$ 1,200,023	\$ 4,800,360	\$ 7,387,883
EBITDA	\$ (291,982)	\$ (120,002)	\$ (600,045)	\$ (923,485)
Depreciation and Amortization	\$ 15,455	\$ 37,198	\$ -	\$ -
EBIT (Operating Profit)	\$ (307,437)	\$ (157,200)	\$ (600,045)	\$ (923,485)
Net Interest Income (Expense)	\$ (15,341)	\$ (87,423)	\$ -	\$ -
Total Other Income (Expense)	\$ 1,720	\$ 2,000	\$ -	\$ -
Total Non Operating Income (Expense)	\$ (13,621)	\$ (85,423)	\$ -	\$ -
Pre-Tax Income	\$ (321,058)	\$ (242,623)	\$ (600,045)	\$ (923,485)
Income Tax Expense (Benefit)	\$ -	\$ -	\$ -	\$ -
Net Income	\$ (321,058)	\$ (242,623)	\$ (600,045)	\$ (923,485)

Capital Structure

As of the Valuation Date, the Company’s capital structure is composed of common and preferred stock:

Summary Capitalization Table				
Class	Preferred Stock Issuance Date	Units Outstanding	Issue/Strike Price	% Fully Diluted
Common Stock		6,600,000		61.5%
Preferred Stock				
Series B	12/31/2013	2,909,273	\$ 1.0000	27.1%
Series A	3/17/2012	725,100	\$ 0.2500	6.8%
Issued Common Options		195,000	\$ 0.09	1.8%
Unissued and Ungranted Option Pool		300,000		2.8%
Total Fully-Diluted Stock:		10,729,373		100.0%

Notes:

As previously discussed, and in keeping with AICPA guidelines, the cap table includes unissued options that management expects to issue in the near term. For this purpose we have defined “near term” as the sooner of 12 months or date of expected future financing, as proxies for events/timelines that would drive a review of the company’s valuation.²

Rights and Preferences of the Preferred Stock

Cumulative Dividend Rights: There are no cumulative dividends on the preferred shares.

Liquidation Preference: Preferred shareholders receive their liquidation preference on a *Pari-Passu* basis and in preference to the holders of the common stock. Series A shares receive a liquidation preference of \$0.25 per share plus any declared dividends, Series B shares receive a liquidation preference of \$1.00 per share plus any declared dividends.

Participation Rights: Preferred shareholders have no participation right after satisfaction of the liquidation preference.

Anti-dilution: is calculated using the broad based weighted average method.

² This is in accord with the most recent guidance from the AICPA which states that because use of the OPM for Equity Allocation considers the evolution of the equity value without allowing for proceeds raised in additional financings, the allocation does not include the dilution impacts of any additional financings, nor the dilution impacts of any options and warrants that may be issued as the company progresses toward a future liquidity event. That is, even if the company has reserved a pool of options that may be issued to new and existing employees as the company progresses toward a successful liquidity event, only outstanding options and options that will be issued in the short term, irrespective of any changes in the company’s value, are included in the allocation.

INDUSTRY CONDITIONS

Description of the Industry

Ad Concepts competes in the consumer and B2B web industry, specifically as a provider of programmatic marketing solutions. An analysis of the space provides an understanding of Ad Concepts relative to its competitors.

Online Advertising Marketplace

Online advertising is a form of promotion that uses the Internet to deliver marketing messages to attract business. The online advertising industry is expected to grow to \$100 billion by 2014 with the United States and Western Europe, which account for about 70% of the market.

The online advertising sector has a crowded value chain that squeezes display margins on both the supply and demand side of the market. The publisher constitutes the supply side. On the demand side, the participants include ad serving companies, ad exchanges, data providers, ad network, agencies and finally the advertisers themselves. A significant amount of revenue from display advertising arises today from indirect sales channels – research estimates that up to 80% or more of inventory sells through these channels. Automation is creating efficiencies in the industry by reducing friction on the buy and sell side, enabling publishers to experience a higher Cost Per Mille (CPM) and fill rate.

Advertisers are demanding better marketplace transparency and efficiency, reduced transaction costs, and better opportunities to engage their target audience directly. Publishers, on the other hand, want better control of supply and pricing. Online direct-marketing tactics are turning to more precisely targeted and timely display advertising. This change has been fueled by:

- The availability of deeper audience-insight and intent data from data exchanges and other emerging data providers, enabling advanced audience targeting.
- The implementation of real-time bidding (RTB) on inventory-trading platforms or ad exchanges, letting advertisers or their agents buy at value prices and deliver individual ad impressions to audiences visiting a publisher site in real time.
- The appearance of high-powered, number-crunching demand-side platforms, enabling progressively more useful and insightful analytics and optimization.

Aside from the widespread introduction of RTB, change will also result from individual company maneuvers, notably Google's re-launch and reworking of its ad exchange platform. In addition, the decision by current ad-exchange market leader Yahoo Right

Media to focus only on premium inventory while shuttering its non-premium business has broad implications. Parallel to this is the almost pervasive implementation of RTB across ad exchanges, ad networks, and supply-side platforms, making biddable inventory available from a wider selection of sources than just ad exchanges.

Programmatic (RTB) Advertising

Programmatic (RTB) Advertising is the buying and selling of advertising, including real-time bidding and automation of purchases. The purchasing of advertising is computerized, algorithm-driven, which allows marketers to purchase advertisements based on potential consumer online actions.

Since the introduction of programmatic (RTB) advertising in 2008, there has been rapid growth in the first four years to a \$3.4B industry, with projections of growth to reach \$8B by 2016, with programmatic buying to reach \$13.9B globally by 2016. Driving the growth is the efficiency of digital advertising campaigns alongside the scale of its reach, with 83% of marketers intending to shift to data-driven marketing.

Competitors

Ad Concepts faces competition from a broad array of privately held and public companies, as well as divisions of larger enterprises. Competitors include Rocket Fuel, Magnetic, Ad Roll, Triggitt, Turn, Media Math, and Criteo.

CURRENT ECONOMIC CONDITIONS

The AICPA emphasizes that it is essential to take into account the general economic environment relevant to a company in the course of a valuation appraisal. In particular, the Practice Aid notes that “[i]n valuing a business or its assets, it is important to consider the condition of, and outlook for, the economy or economies of the particular geographic regions in which the enterprise operates or sells its products and services. This review of economic conditions and outlook is required because the performance of a business is affected to varying degrees by the overall trends in the economic environment in which the business operates and the value of a business or its assets cannot be determined in isolation of these factors.” The following section provides a brief discussion of the economic condition and outlook for the domestic economy.

Source: Federal Reserve's *Beige Book* Report
Report Dated: July 16, 2014

This report is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis.

All twelve Federal Reserve Districts indicated that economic activity continued to expand since the previous report. The pace of economic growth was characterized as moderate in New York, Chicago, Minneapolis, Dallas, and San Francisco, while the remaining Districts reported modest expansion. Compared to the previous reporting period, Boston and Richmond noted a slightly slower pace of growth. Most Districts were optimistic about the outlook for growth.

Overall consumer spending increased in every District. Retail sales grew modestly in most Districts, with increases that were generally similar to the previous reporting period. Vehicle sales remained stronger than non-auto retail sales, with Philadelphia, Richmond, Atlanta, and San Francisco indicating robust to very strong auto sales. Tourism activity expanded in all reporting Districts, with growth ranging from slight in Philadelphia to very strong in Boston. Hotel contacts described robust activity in the Boston, New York, Atlanta, and Minneapolis Districts, while Philadelphia and Richmond noted activity levels that were in line with seasonal norms.

Activity in the nonfinancial services sector continued to grow across all Districts at a modest to moderate pace. Many Districts reported positive growth for professional and business services, including healthcare consulting, advertising, engineering, accounting, and technology. Overall, transportation activity rose at a moderate pace since the previous survey period. Broad-based demand for trucking and rail services across the Districts increased, and the Richmond District reported strong growth in port container traffic, with increases in both imports and exports. Manufacturing activity expanded in all twelve Districts. Contacts in the metal and auto industries generally reported positive

growth, while manufacturers in the Philadelphia, Cleveland, Richmond, and Chicago Districts reported increased demand for their products from the energy sector.

Reports on real estate activity varied across the Districts. Many Districts reported low inventories and increasing home prices, but demand was mixed. Boston, New York, and St. Louis reported home sales were below year-ago levels, while Chicago noted a decrease in home sales since the last survey period. Home sales in other Districts remained steady or increased. Multi-family sales and leasing activity were robust in the New York and Dallas Districts. Residential construction rose for single-family homes in the Cleveland, Chicago, Kansas City, and San Francisco Districts, while New York, Richmond, Atlanta, Chicago, Minneapolis, and San Francisco reported increases for multifamily construction. Commercial construction activity generally strengthened across the Districts, due to higher demand and low vacancy rates.

Loan volumes rose across the nation, with slight to moderate increases reported in most Districts. Credit quality remained stable or improved slightly in most Districts, while San Francisco noted a slight decline. Credit standards were generally unchanged, although Richmond noted an easing of cost terms for well-qualified commercial and industrial borrowers, and Philadelphia and Chicago mentioned that competitive pressures were leading some financial institutions to take on higher credit risks.

Among Districts reporting on agriculture, heavy rains improved soil moisture levels in the Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts, while drought conditions persisted in San Francisco. Most fall crops were reported in good or better condition, and expectations of higher production lowered crop prices. Profitability improved for livestock operators in the Atlanta, Minneapolis, and Kansas City Districts due to high cattle and hog prices. Oil production expanded in the Minneapolis, Kansas City, and Dallas Districts, while natural gas and coal production remained relatively steady in reporting Districts.

Labor market conditions improved, as all twelve Districts reported slight to moderate employment growth. Several Districts continued to report some difficulty finding workers for skilled positions. Aside from higher wages to attract talent for these skilled positions, wage pressures remained modest in most Districts. Price pressures were generally contained, with most Districts reporting slight to modest price increases for both inputs and finished goods. Several Districts noted higher prices for meat, dairy products, construction materials, and some metals (namely steel, copper, and nickel).

Consumer Spending and Tourism

Consumer spending continued to increase at a moderate pace since the previous report, with generally modest growth among non-auto retailers and moderate to strong growth in vehicle sales and tourism activity. Most Districts reported modest retail sales growth since the last report, with slightly slower sales growth in the Boston and Atlanta Districts and faster sales growth in the New York, Dallas, and San Francisco Districts. Although wet weather continued to restrain sales in the Chicago District, New York noted an increase in sales due to pent-up demand as the negative effects from earlier adverse weather abated. Several Districts mentioned that higher meat prices were

affecting consumer behavior. New York, Cleveland, and Chicago also reported higher levels of promotions or discounting. Sales were particularly strong for shoes and children's apparel in the Philadelphia District, furniture in the Atlanta District, home improvement and building materials in the St. Louis and Kansas City Districts, and low-end and mid-range technology goods in the San Francisco District. Contacts in the Philadelphia and Cleveland Districts reported higher planned capital expenditures for retail space.

Vehicle sales expanded in most Districts in the latest reporting period, and auto contacts were optimistic about auto sales in the months ahead. Most Districts reported that sales were above year-ago levels, with Dallas noting a return to pre-recession sales levels. Philadelphia, Richmond, Atlanta, and San Francisco reported robust or very strong auto sales growth, while most other Districts noted a more moderate pace of growth. Cleveland, Richmond, and San Francisco reported some softening in used car sales, while new car sales were stronger than used sales. Richmond mentioned that recent vehicle recalls were weighing on used car sales, while Chicago noted increased activity in service and parts departments due to recalls. SUVs sold particularly well in the Cleveland and Kansas City Districts.

Tourism activity increased across all reporting Districts, and most Districts' contacts were optimistic about future activity levels. Boston, New York, and Kansas City reported strong tourism activity, while Atlanta, Minneapolis, and San Francisco reported moderate tourism growth. Hotel occupancy rates were high in the Boston, New York, Atlanta, and Minneapolis Districts. Tourism activity rose slightly in the Philadelphia and Richmond Districts, with levels that were in line with seasonal norms. Philadelphia and Richmond also mentioned that many tourists were budget conscious. Dallas noted gains in domestic travel, but weaker demand from foreign travelers.

Nonfinancial Services

Nonfinancial services activity continued to strengthen since the previous survey period, with all Districts reporting steady or improving growth. Many Districts reported positive growth within the professional and business services sector. Specifically, Boston noted an increase in demand for consulting services (especially for healthcare) and advertising; Richmond indicated a rise in demand for accounting services; Minneapolis mentioned gains in engineering and architecture services; and San Francisco noted an increase in technology services. San Francisco continued to report a decline in activity in the food services industry. Conditions in the staffing services industry across the Districts were unchanged or improved modestly compared with the previous survey period.

Transportation activity grew at a moderate pace in the most recent survey period. Minneapolis and Dallas reported high demand for rail services; in particular, Minneapolis mentioned increased volumes for grain, crushed stone, lumber, and wood, although rail shipments for petroleum, primary forest materials, and nonmetallic minerals decreased. Contacts in the Cleveland District reported strong and broad-based trucking activity, with shipments of construction and fracking-related materials particularly strong. Contacts in the Richmond District noted an increase in demand for

freight trucking related to home improvement stores increasing inventories in advance of the Fourth of July holiday weekend. Port officials in the Richmond District saw robust growth in container traffic, led by exports of forest products, grains, soybeans, and auto parts, and imports of auto parts, apparel, and textiles. However, these contacts also noted that imports of housing-related products, such as furniture and appliances, had decelerated.

Manufacturing

Manufacturing activity expanded further in all twelve Districts since the previous survey period, with growth occurring across many subsectors. Manufacturing activity in the New York, Atlanta, Chicago, Minneapolis, and San Francisco Districts grew at a robust pace, while the manufacturing sectors in the Boston, Philadelphia, Cleveland, Richmond, St. Louis, Kansas City, and Dallas Districts increased at a more modest pace. Compared with the previous report, the pace of growth slowed slightly in the Boston, St. Louis, and Kansas City Districts, and increased in the Richmond District. Contacts in the Chicago, St. Louis, Minneapolis, Dallas, and San Francisco Districts reported generally positive activity within the metals sector. Philadelphia and Chicago noted improved growth in the aerospace industry since the previous survey period. Manufacturing in the auto industry generally strengthened, with Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and San Francisco reporting increased activity; however, Minneapolis noted a moderation in the auto industry's demand for certain inputs. Manufacturers supporting the energy sector in the Midwest and Northern Appalachia reported stronger sales, specifically for metal-piping related products. Production of construction inputs was mixed, as Kansas City and San Francisco reported a decrease in production and Philadelphia, Chicago, and Dallas reported a slight increase. Boston, Cleveland, Atlanta, Kansas City, and Dallas were optimistic about the near-term outlook for overall manufacturing activity.

Real Estate and Construction

Residential real estate activity continued to vary by Federal Reserve District, reflecting generally low inventories and mixed levels of demand. Specifically, Boston, New York, Atlanta, Kansas City, and Dallas noted that residential home sales were constrained by low or dwindling inventories. Nevertheless, despite decreasing inventories, residential home sales in the Atlanta and Kansas City Districts rose at a slight to modest pace. Philadelphia, Cleveland, and Richmond also noted a slight to modest increase in sales since the previous survey period, while San Francisco reported that home sales in the recent reporting period were below year-ago levels. Boston, New York, Chicago, and St. Louis indicated that residential sales activity softened, with Chicago attributing some of this decline to an increase in prices. Home prices continued to rise across most of the Districts, especially within urban areas, but contacts in the San Francisco District noted a slightly slower pace of home price appreciation. New York and Dallas reported robust activity in multifamily sales and leasing.

Residential construction activity generally increased across the Districts, with only St. Louis and Minneapolis reporting a decline in overall activity. Chicago and San Francisco reported increased construction of high-end urban single-family homes, and Cleveland

and Kansas City continued to see growth in low- to medium-priced single-family construction. Cleveland and San Francisco reported that a shortage of vacant lots was holding back further growth in both single-family and multifamily construction; however, growth remained positive. New York, Richmond, Atlanta, Chicago, Minneapolis, and San Francisco noted that multifamily construction activity increased since the previous survey period. Contacts in the Cleveland District reported that they were seeing greater willingness to finance multifamily projects.

Commercial construction activity strengthened across most Districts. Cleveland and Atlanta reported increased commercial construction activity compared to a year ago, and Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco noted gains since the previous survey period. Boston and Richmond saw mixed commercial construction activity across their Districts since the previous report. Dallas indicated strong overall commercial real estate construction activity, and commercial real estate construction increased in the Minneapolis District compared with the previous report. Boston, New York, Richmond, Chicago, Kansas City, and Dallas reported tight commercial vacancy rates. Industrial real estate construction and leasing activity was strong in the Philadelphia and Chicago Districts.

Banking and Financial Services

Overall, banking conditions improved slightly from the previous reporting period. Nearly all reporting Districts indicated increasing loan volumes. Loan demand was strongest in the New York, Chicago, and Dallas Districts, where loan volumes rose moderately compared with the previous report. Loan volumes increased modestly in the Richmond, Atlanta, St. Louis, and San Francisco Districts, while Philadelphia and Cleveland noted a slight uptick. Commercial and industrial lending increased in the New York, Philadelphia, Cleveland, Richmond, Chicago, and St. Louis Districts. However, commercial and industrial lending decreased slightly in the Kansas City District. Commercial real estate lending exhibited slight to moderate growth in the New York, Chicago, Dallas, and San Francisco Districts. Growth in residential real estate loan volumes was mixed across the System. New York, Philadelphia, St. Louis, and Dallas reported growth, while Richmond, Atlanta, and Kansas City indicated slight declines in demand. Consumer lending increased in the New York, Philadelphia and St. Louis Districts, and construction lending expanded in the New York, Philadelphia, and San Francisco Districts. Most Districts cited stable or slight improvement in credit quality, while Dallas and New York reported moderate and strong improvement, respectively. San Francisco was the only District with a reported decline in credit quality. Bankers in the New York and Atlanta Districts reported decreases in delinquency rates for all loan categories, with rates reaching pre-recession levels in the Atlanta District.

Credit standards remained generally unchanged in most Districts. Contacts in the Philadelphia District expressed a growing concern for loans with risky terms as a result of strong competition among banks to secure new loans. In addition, banking contacts in the Chicago District cited competitive pressure on structure and pricing for traditional and leveraged business lending, particularly from nonbank financial institutions willing to take on higher credit risk. Though Richmond indicated an easing

of cost terms for well-qualified commercial and industrial borrowers, credit standards for mortgage lending were described as strict.

Deposit volumes picked up in the Cleveland, Kansas City, and Dallas Districts, but declined in the St. Louis District. New York indicated declining spreads between loan rates and cost of funds, particularly for commercial mortgages. Bank contacts in the Philadelphia District reported growing confidence among both businesses and consumers, but also indicated that businesses continued to be cautious regarding most decisions.

Agriculture and Natural Resources

Growing conditions varied with precipitation levels. Heavy rains improved soil moisture levels in the Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts, though there were isolated reports of hail and flood damage. However, recent rains were too late to aid the development of the winter wheat crop and actually delayed the harvest in the Kansas City and Dallas Districts, leading to expectations for below-average yields. Persistent drought in the San Francisco District led some producers to curb new planting to conserve water for permanent crops. Despite late planting in many areas, most fall crops were reported in good or better condition, and expectations of strong production this year lowered crop prices. High cattle and hog prices, reflecting supply constraints and strong export demand, improved profitability for livestock operators in the Atlanta, Minneapolis, Kansas City, and Dallas Districts. Higher milk prices and low feed costs relative to last year also strengthened profit margins for dairy operators in the Minneapolis and San Francisco Districts. The Chicago District reported declines in milk and cattle prices compared with the previous survey period, though prices remained well above levels necessary to cover production costs.

Oil production drove growth in the energy sector, while natural gas and coal production generally held steady. Strong summer demand was expected to support elevated oil prices. Oil production expanded in the Minneapolis, Kansas City, and Dallas Districts, and crude oil inventories rose at Gulf Coast refineries in the Atlanta District. Natural gas production in the Richmond and Kansas City Districts remained relatively steady. Some contacts in the Kansas City District planned to increase capital spending, and also noted a rise in drilling costs due to advances in technology. Coal production in the Cleveland, Richmond, and St. Louis Districts, as well as iron ore output in the Minneapolis District, was little changed.

Employment, Wages, and Prices

Labor market conditions continued to improve since the previous report, with all Districts reporting slight to moderate employment growth. Employers in the Philadelphia District remained cautious, and reported hiring for replacement and some incremental growth. Philadelphia and Atlanta reported more hiring for permanent positions since the last reporting period. Employers in the Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas Districts reported difficulty finding workers for some skilled positions. In particular, a shortage of truck drivers was noted in the Cleveland, Richmond, Atlanta and Kansas City Districts, and skilled construction

and craft workers were reportedly in short supply in the Cleveland, Richmond, Atlanta, Chicago, Kansas City and Dallas Districts. Cleveland and Dallas also noted that labor markets were tight in energy-producing areas.

Most Districts noted that wage pressures remained modest outside of some skilled positions. New York, Philadelphia, Cleveland, Richmond, and Atlanta reported stable to slightly increasing wage pressures; in addition, Chicago indicated that wage pressures increased (though primarily for skilled workers). St. Louis, Minneapolis, and Kansas City reported modest wage pressures. Wage pressures in the Dallas and San Francisco Districts were moderately higher than in other parts of the country. Dallas noted that the strongest wage pressures within its District were in the energy and construction sectors, but reported modest upward pressure in other industries as well. San Francisco mentioned some upward wage pressure from rising minimum wages, and some contacts in the San Francisco District noted an increasing need to offer higher starting salaries to attract talent from competitors.

Price pressures were generally contained, with most Districts reporting slight to modest price increases for both inputs and finished goods. New York and Chicago reported upward pressure on costs; Richmond and Kansas City reported that prices of raw materials and finished goods rose at a slightly slower pace. Several Districts noted higher prices for meat, dairy products, construction materials, fuel, and some metals (namely steel, copper, and nickel). Contacts in the Boston, Cleveland, Atlanta, Kansas City, Dallas, and San Francisco Districts reported success in passing on higher input costs to customers in some instances.

VALUATION THEORY AND CONSIDERATIONS

Determining Stockholders' Equity Value

As noted in the Internal Revenue Manual *Business Valuation Guidelines*, in developing a valuation conclusion, appraisers should analyze the relevant information necessary to accomplish the assignment including³:

- The nature of the business and the history of the enterprise from its inception;
- The economic outlook in general and the condition and outlook of the specific industry in particular;
- The book value of the stock or interest and the financial condition of the business;
- The earning capacity of the company;
- The dividend-paying capacity of the company;
- The size of the block of stock to be valued;
- The market price of stocks or interests of corporations or entities engaged in the same or a similar line of business having their stocks or interests actively traded in a free and open market, either on an exchange or over-the-counter;
- Other relevant information.

The appraisal of any asset or collection of assets can be broadly classified into one of three generally accepted approaches, namely, the income, market and asset-based approaches. In the *Business Valuation Guidelines*, the IRS has noted that “[p]rofessional judgment should be used to select the approach(es) ultimately used and the method(s) within such approach(es) that best indicate the value of the business interest.”

The IRS has further laid out the following principles that should be followed in developing a valuation conclusion:

- 1) Historical financial statements should be analyzed and, if necessary, adjusted to reflect the appropriate asset value, income, cash flows and/or benefit stream, as

³This list is similar to that established in Revenue Ruling 59-60, 1959-1 C.B. 237.

applicable, to be consistent with the valuation methodologies selected by the valuator.

- 2)** The valuation professional should select the appropriate benefit stream, such as pre-tax or after-tax income and/or cash flows, and select appropriate discount rates, capitalization rates or multiples consistent with the benefit stream selected within the relevant valuation methodology.
- 3)** The valuation professional will determine an appropriate discount and/or capitalization rate after taking into consideration all relevant factors such as:
 - The nature of the business
 - The risk involved
 - The stability or irregularity of earnings
 - Other relevant factors
- 4)** As appropriate for the assignment, and if not considered in the process of determining and weighting the indications of value provided by other procedures, the valuation professional should separately consider the following factors in reaching a final conclusion of value:
 - Marketability, or lack thereof, considering the nature of the business, business ownership interest or security, the effect of relevant contractual and legal restrictions, and the condition of the markets
 - Ability of the appraised interest to control the operation, sale, or liquidation of the relevant business
 - Other levels of value considerations, such as the impact of strategic or synergistic contributions to value
 - Such other factors which, in the opinion of the valuator, that are appropriate for consideration

As is apparent from the guidelines noted above, the analyses involved in conducting a business valuation engagement offer significant discretion to the judgment of the appraiser in defining the appropriate methodologies to be employed in deriving indications of value. The following is an excerpt from section 6.2 of the American Society of Appraisers Principles of Appraisal Practice:

The procedure and method for determining the particular value in question is a matter for the appraiser himself to determine – he cannot be held responsible for the result unless he has a free hand in selecting the process by which that result is to be obtained. However, good appraisal practice requires that the method selected be adequate for the purpose, embrace consideration of all the factors that have a bearing on the value, and be presented in a clear and logical manner.

The AICPA has developed the following guidelines on the same matter:

There are no “rules of thumb” or universal formulas that can reliably be used to determine the value of an enterprise...Each valuation is unique, and a final determination of value based on an assessment of different values obtained under the various methods requires the exercise of judgment. That judgment should include consideration of factors such as the relative applicability of the methods used given the nature of the industry and current market conditions; the quality, reliability, and verifiability of the data used in each methodology; the comparability of public enterprise or transaction data used in the analyses to the subject enterprise; and any additional considerations unique to the subject enterprise.⁴

In order to arrive at our estimates of value, we considered the three generally accepted approaches to valuation: the income approach, the market approach, and the asset-based approach.

Market Approach

The market approach references actual transactions in the equity of the enterprise being valued or transactions in similar enterprises that are traded in the public markets. In using transactions from similar enterprises, there are three primary methods. The first, often referred to as the Guideline Transactions Method, involves determining valuation multiples from sales of enterprises with similar financial and operating characteristics and applying those multiples to the subject enterprise. The second, often referred to as the Guideline Public Company Method, involves identifying and selecting publicly traded enterprises with financial and operating characteristics similar to the enterprise being valued. Once publicly traded enterprises are identified, valuation multiples can be derived, adjusted for comparability, and then applied to the subject enterprise to estimate the value of its equity or invested capital. The AICPA has noted that a significant limitation of the market approach is that “true” comparables are unlikely to exist, particularly in valuing privately held enterprises.⁵ Another limitation arises if the enterprise being valued has no earnings or has immaterial revenue, as forecasts of financial statement amounts may then be highly speculative. A third approach under the rubric of the market method is the guideline venture funding or back-solve approach. This approach uses information from the most recent round of venture capital/private equity financing to approximate an enterprise value for the company.

Asset or Cost Based Approach

A second approach to the valuation is the asset-based approach. The general principle behind the asset-based approach is that the value of an enterprise is equivalent to the value of its individual assets net of its liabilities. A prudent investor would pay no more for an asset than the amount for which he or she could replace the asset new. One variant of the cost approach is the Invested Capital method. In this approach, the

⁴ AICPA *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, Chapter 5: Factors to be Considered in Performing a Valuation, paragraph 45.

⁵ See AICPA *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, Chapter 6: Approaches to Determining Enterprise Fair Value, paragraph 53.

amount of invested capital raised by the company to date is used as a proxy for enterprise value. It represents an indication of the capital employed by the company to develop its product and intellectual property and represents a base indication of value.

Overall, the cost approach may be an appropriate valuation methodology in cases where the company is at an early stage in its development, where there is high uncertainty in the nature of future positive cash flow streams and/or where the company is in distress with a reasonable likelihood of liquidation in the near term.

Income Approach

The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to investors in the security or asset. A commonly used methodology under the income approach is a discounted cash flow analysis. A discounted cash flow analysis involves forecasting the appropriate cash flow stream over an appropriate period and then discounting it back to a present value at an appropriate discount rate. This discount rate should consider the time value of money, inflation, and the risk inherent in ownership of the asset or security interest being valued. The income approach may be highly speculative in cases where the enterprise being valued has not yet reached profitability.

The appraiser considers but is not required to use all three approaches.

Equity Value Allocation

There are a variety of acceptable valuation methods for the allocation of value between preferred and common stock as explained in *Valuation of Privately-Held Company Equity Securities Issued as Compensation* (the “Practice Aid”). These valuation methodologies allocate value to shares of preferred and common stock based on their relative economic and control rights. The Practice Aid emphasizes that no single methodology is superior in all respects and in all circumstances over the others. Each method has merits and challenges, and there are tradeoffs in selecting one method over the others. The level of complexity differs from one method to another. In the text that follows, we have described the various acceptable methodologies for allocation of value as well as our considerations in the selection of an appropriate methodology.

Current Value Method

The current value method of allocation is based on first determining enterprise value using one or more of the three valuation approaches (market, income, or asset-based), then allocating that value to the various series of preferred stock based on their liquidation preferences or conversion values, whichever would be greater. This methodology is underpinned by the assumption that, at the valuation date, each preferred shareholder will exercise his or her conversion rights in an optimal manner to extract the greatest benefit to such preferred shareholder.

Option Pricing Method

The option pricing method treats common stock and preferred stock as call options on the enterprise’s value, with exercise prices based on the liquidation preference of the preferred stock. Under this method, the common stock has value only if the funds available for distribution to shareholders exceed the value of the liquidation preference at the time of a liquidity event, assuming the enterprise has funds available to make a liquidation preference meaningful and collectible by the shareholders. The common stock is modeled as a call option that gives its owner the right but not the obligation to buy the underlying enterprise value at a predetermined or exercise price. In the model, the exercise price is based on a comparison with the enterprise value rather than, as in the case of a “regular” call option, a comparison with a per-share stock price. Thus, common stock is considered to be a call option with a claim on the enterprise at an exercise price equal to the remaining value immediately after the preferred stock is liquidated. The option pricing method has commonly used the Black-Scholes model to price the call option. The option pricing method may be complex to implement and is sensitive to certain key assumptions, such as the volatility assumption, that are not readily subject to contemporaneous or subsequent validation.

Probability-Weighted Expected Return Method (*PWERM*)

Under a probability-weighted expected return method, the value of the common stock is estimated based upon an analysis of future values for the enterprise assuming various future outcomes. Share value is based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes

available to the enterprise, as well as the rights of each share class. Although the future outcomes considered in any given valuation model will vary based upon the enterprise's facts and circumstances, common future outcomes modeled might include an IPO, merger or sale, dissolution, or continued operation as a viable private enterprise.

Selection of Methodology

The *Practice Aid* offers specific guidance in the selection of methodologies to be used for the equity value allocation. It highlights that valuation specialists will typically select “one (or at most two) methods for use in valuation.”

The SEC has publicly discouraged appraisers from averaging the results of two methods in the case where the two methodologies provide disparate answers. SEC officials have emphasized that in many cases one method is better than another in a given set of circumstances and that the appraiser (and management) should select the method that is optimally suited to the circumstances. While they recognized that it is common practice to use the results of a different allocation method to confirm the results of the selected method, they suggest that major differences between allocation methods should be seen as trigger points for investigation into the appropriateness of the methods and assumptions used.

Premiums and Discounts

The same share of stock may have a different value depending on the elements of control, size and marketability inherent in the interest being valued. The valuation methodologies we have considered yield value indications at different levels of value. A controlling interest in a company, which typically implies in excess of 50 percent voting control, possesses the ability to implement changes in corporate structure and policies. Conversely, a non-controlling (minority) interest does not possess such ability.

The most common premiums and discounts are as follows:

Control Premiums – A controlling interest is worth more because it provides the holder of the controlling interest with the ability to determine how the subject business is governed, when it might be sold, the level and frequency of dividends, and other matters that influence value and liquidity. A control premium must be applied when determining certain comparative guideline public company stock value multiples under the Market Approach.

Minority Interest Discounts – The mathematical inverse of a control premium is a minority interest discount. Consequently, the selection of an appropriate control premium effectively determines the minority interest discount and vice-versa. The holder of a minority, non-controlling interest is unable to unilaterally influence corporate governance and corporate structure and policies, many of which directly impact value, making the minority interest worth less than a controlling interest on a per share basis.

Voting Control – Often different classes of stock have different voting rights ranging from no rights to a multiple of representation, for example, one share equals four shares worth of votes. If two classes of stock are entitled to the same economic benefit but one class does not have voting rights that class typically trades at a discounted value. This scenario of a class of stock with no voting rights is typical in public companies where the founder wants to maintain control of the company. It is also important to note that the rights of the common stock are not as powerful as the rights of the preferred stock and the preferred stock owns a majority of the company and controls the board of directors.

Lack-of-Marketability Discounts – If the shares of the comparative guideline public companies can be readily sold in an active market, they are worth more than illiquid shares. Typically, the stock of a privately held company is illiquid, i.e., it is not easy to accomplish a sale of stock in the subject company. The magnitude of the appropriate lack-of-marketability discount varies depending on the number of shares outstanding, the number of shareholders, the size of the subject block of stock, governance provisions that affect the inherent elements of control, the performance of the company, the volatility of the subject stock value, dividend policy, and

other factors. The lack-of marketability discount must be factored in because the multiples on the comparable companies assume a readily liquid market to sell shares of stock.

Common Stock Discount – In addition to the discounts applied for a minority interest and lack-of-marketability, it may be appropriate to apply a discount for common stock because common stock rights are subordinate to preferred stock rights. This discount amount is used to price common stock in companies prior to having an IPO. After an IPO, all stock converts to common stock, so preferred classes no longer have additional value.

Discount for Inception Stage/Small Company Discount – Research indicates that the stock of smaller companies is generally worth less on a relative basis than stock of larger companies. There may be several reasons for this including the fact that larger companies generally achieve greater economies of scale, greater product and/or geographic diversification, greater depth of management, greater access to efficient capital markets in the short run, and enjoy greater barriers to entry against competitors. In short, larger companies are perceived as having lower overall risk than smaller companies.

VALUATION OF THE COMPANY

Approaches Considered and Applied

In performing the valuation analysis and arriving at an estimate of fair market value, we considered all three approaches outlined previously – namely the market, income and asset approaches. After reasonable consideration of the options, we proceeded with an analysis based on the income approach and market approaches (Guideline Public Companies, Guideline Transactions and Guideline Venture Funding) to develop an estimate of value. We did not pursue the asset approach as the Company is a viable going concern and not currently in distress.

Application of the Income Approach

In the Discounted Cash Flow Method (“DCF”) value is determined by performing a prospective financial analysis of the subject business to estimate future available debt-free net cash flows. Debt-free net cash flow (“DFNCF”) is defined as:

$$\text{Pretax Income} + \text{Interest Expense} - \text{Taxes} + \text{Depreciation and Amortization} - \\ \text{Investments in Working Capital} - \text{Capital Expenditures}$$

Methods used to evaluate a company’s future cash flow capacity include single-period forecasting and multi-period forecasting. The aim of both types of forecasting is to estimate the cash flows for as many discrete future periods as needed to obtain the “stabilized” cash flow level of the company. At this point, an estimate of the terminal, or residual, value of the company is developed by capitalizing the expected cash flow into perpetuity and discounting the indication to present value. The sum of the discounted interim cash flows and discounted terminal value provides an indication of the total invested capital value of the business, or the summation of interest-bearing debt and equity.

Alternatively stated, because the projected earnings are debt-free (i.e. earnings that do not reflect interest expense), the resulting cash flows are available for distribution to both debt and equity holders. As such, the value indication derived from this analysis is the value of both interest-bearing debt and equity, or total invested capital. The fair value of the shareholders’ equity can be determined by subtracting the value of the interest-bearing debt from the indicated total invested capital.

DCF Application

Financial projections from fiscal 2014 through fiscal 2018 (the “Discrete Projection Period”) were based on projections and assumptions provided by Management (see table below). In developing the discounted cash flow analysis, Oxford Valuation Partners has relied upon certain considerations including:

- An analysis of the Company's historical financial results;
- Assumptions regarding financial projections developed by Management;
- Discussions with Management;
- Opportunities available to the Company; and
- Expected industry and economic conditions.

As such, we make no representation of any kind as to the accuracy, fairness, or completeness of the projections or underlying assumptions, nor have we independently verified information provided by Management or market related research. Because of the inherent uncertainty in projections, no assurance can be given that Ad Concepts will achieve the projected financial performance and, therefore, the possibility of deviation from these projections exists.

Revenues– Ad Concepts is forecasted to generate revenues of approximately \$3.1 million from Valuation Date to end of fiscal 2014 which is projected to increase to approximately \$43.1 million by the end of fiscal 2018.

Operating Expenses– In the Discrete Projection Period, operating expenses are expected to decrease as a percentage of revenue from 90.0% in the Last Twelve Months ending 8/31/2014 to 60% by 2018.

Income Taxes– The Company's future tax rate was estimated at 40.0% based on a blend of international and domestic tax rates which are applicable to the Company. Net operating loss carry forwards (NOLs) accumulated through the end of fiscal 2016 were used to offset tax liabilities.

Cash Flow Adjustments – Depreciation and amortization as well as capital expenditures were estimated for the forecast period. In addition, working capital needs (excluding Cash and Deferred Revenue) were estimated for the Company based on discussions with Management, historical financial results, and market data.

Discount Rate Analysis

To arrive at the present value of the debt-free cash flow available for distribution in the discounted cash flow method, an estimate of an appropriate discount rate was necessary. In our evaluation of the risk associated with the expected cash flow of the Company, we considered the Weighted Average Cost of Capital ("WACC"). The WACC measures a company's debt and equity financing weighted by the percentage of debt and percentage of equity in a company's target capital structure. Based on our consideration of the Company's WACC, we selected a 45% discount rate for the analysis.

The discount rate provides a hypothetical buyer or investor with the rate of return necessary in the marketplace to attract the capital of a willing financial buyer inherent in the fair market value standard. The rate of return must also be one that is acceptable to the willing seller inherent in the fair market value standard of value. The level of return acceptable to individual buyers and the price driven by that rate which is acceptable to individual sellers vary among specific sellers and buyers. The task of the appraiser is to

select the rate that would be acceptable to both the willing seller and the willing buyer within the definition of fair market value, parties without compulsion but with knowledge of the relevant facts. This definition requires the appraiser to function as a surrogate for both the seller and buyer and project to them the facts relevant to understanding why the rate selected is fair and reasonable for both parties.

As noted previously, in the definition of fair market value, the buyer is a financial and not a strategic buyer. This means, as detailed in that section, the buyer is not: a) one who is motivated by any synergy or other strategic advantage to be obtained through acquisition, and b) not a current shareholder, creditor, competitor, related party or controlled entity which for reasons that accompany those considerations could be expected to pay more (or less) than the arms-length financial buyer who is essential to the standard of fair market value. Given the Company’s size, the control interest basis for this valuation and the philosophy of Revenue Ruling 59-60, we looked to the public marketplace to estimate our discount rate. While we use market data to build the discount rate used in this appraisal, risks specific to the Company must also be considered.

Stage of Company Development	Stage Description
Seed and/or Startup	Early product development. Incomplete management team. Limited expense history.
First	Product development continues. Business challenges understood. Cash burn rate history.
Second	Product development complete. Management team is in place. Products have shipped and getting customer traction.
Third	Sales growth is strong and profitability is near or has been achieved. Lenders may finance fixed assets and working capital.
Fourth – Bridge	Sales growth and profit margins have reduced risk.
Mezzanine / IPO / M&A	Exit or liquidity event may be possible and timing is likely known. Additional capital is needed to fund projected growth.

A fair market value buyer of the subject company would require a rate of return consistent with rates of return demanded by venture capital firms, the source of funding for companies like the one considered in this appraisal. The following table summarizes expected annual returns for venture investment in companies in various stages of development. Each column represents a different study, as cited below.

Expected Annual Returns					
Stage	Timmons ⁶	Houlihan V.A. ⁷	Sahlman& Stevenson ⁸	Bygrave ⁹	Plummer ¹⁰
Seed & Start-up	50-100%	125%	50% - 70%	80%	-
Start-up	-	100%	50% - 70%	60%	50% - 70%
First Stage or “Early Development”	40%-60%	60%	50% - 60%	50%	40% - 60%
Second Stage or “Expansion”	20%-40%	50%	35% - 50%	40%	35% - 50%
Third Stage/Mezzanine	-	40%	30% - 50%	30%	-
Bridge/IPO	20%-30%	30%	25% - 35%	25%	25% - 35%

The Company is still in an emerging growth phase of its development with rapid changes in operating model and financial flows. There are additional risks often associated with emerging growth companies, as contrasted with existing operating companies. We therefore considered these factors in developing the appropriate discount rate for the Company to account for these additional risks.

The Company is subject to a high possibility of failure given its early stage of development and the highly competitive marketplace in which it operates. The Company may survive but not flourish, resulting in a failure to achieve a level of revenues and profitability required to create a liquidity event for its shareholders.

Causes of failure can be related to macroeconomic issues, such as recession interest rates, unemployment, consumer sentiment and “shocks”, such as wars or terrorist activities. There are also industry-specific, financial, and operational causes of distress. Industry-specific causes can result from overcapacity, global shifts, import and export limitations, restrictions, regulations, technology changes, and obsolescence. Financial causes would include over-extension, insufficient capitalization, and inadequate cash flow for debt service, capital expenditures, or working capital. Operational causes

⁶Bygrave, William, Professor for Free Enterprise, Babson College, “Classic Venture Capital in the Next Millennium”, June 1997.

⁷Houlihan Valuation Advisors and Venture One study on pricing of venture capital investments in Technology and Life Sciences Companies in the United States. January 1993 to June 1996.

⁸Sahlman, William A. and Howard H. Stevenson, et al, Financing Entrepreneurial Ventures, Business Fundamentals Series (Boston: Harvard Business School Publishing, 1998).

⁹Bygrave, William, Professor for Free Enterprise, Babson College, “Classic Venture Capital in the Next Millennium”, June 1997.

¹⁰Scherilis, Daniel R. and William A. Sahlman, A Method for Valuing High-Risk Long Term Investments: The Venture Capital Method (Boston: Harvard Business School Publishing, 1987).

include such events as the loss of a major customer, over-expansion, or failed growth initiatives.

Specific Risk Considerations

The Company has above average risk with respect to the presence of larger, established competitors, and risks associated with failed growth and profitability initiatives. These are factors that must be considered by the appraiser.

Ad Concepts' current phase of operations is most similar to the "First Stage" of business development, as described above, on a look-forward basis. Therefore, we believe the required rate of return should be somewhere within the 20 percent to 50 percent range for the stage one startups (see chart, above). Given the overall company and industry operating context, we have concluded from this research and analysis that a discount rate of 45 percent is appropriate for Ad Concepts.

Interim Cash Flow Value – As shown in the table below, the forecasted net cash flows were discounted to present value using a discount rate of 45.0% (see Discount Rate Analysis discussion above in this section). As such, the present value of the interim cash flows amounts to approximately \$1.6 million.

Terminal Value - For the remaining cash flows, we calculated the terminal value based on a value for the Company using observed metrics developed from comparable public companies to Ad Concepts and discounting the value to the present value as of the Valuation Date. As the Company is currently in an early stage of its development, as opposed to achieving stable revenues going forward, we felt this approach best captures how a hypothetical buyer would consider the value of the Company.

To determine the terminal value we took LTM Revenue and applied the EV/LTM Revenue multiple derived from an analysis of comparable companies to Ad Concepts. The multiple derived from this analysis was 0.63. Please see the discussion of the Market Approach, Guideline Public Companies for further discussion of adjustments made to arrive at this multiple.

The terminal value is then discounted to August 31, 2014 using the 45.0% required rate of return resulting in an indicated value of approximately \$5.4 million.

Discounted Cash Flow Conclusion – The present value of the interim cash flows is then added to the discounted terminal value to derive Ad Concepts' Total Enterprise Value (TEV).

Given these underlying assumptions, the implied net present value of the company's cash flows is \$7,041,247. The analysis is presented below.

Discounted Cash Flow Analysis						
Fiscal Year Ended December 31,	Appraisal Date to					
	2014	2015	2016	2017	2018	Terminal
Total Revenues	\$ 3,178,024	\$ 15,923,776	\$ 28,662,797	\$ 42,994,195	\$ 45,143,905	
Total Cost of Revenues	\$ 953,407	\$ 4,777,133	\$ 4,299,420	\$ 6,449,129	\$ 6,771,586	
Gross Profit	\$ 2,224,617	\$ 11,146,643	\$ 24,363,377	\$ 36,545,066	\$ 38,372,319	
Total Operating Expenses (Excluding D&A)	\$ 2,860,222	\$ 12,739,021	\$ 20,063,958	\$ 27,946,227	\$ 27,086,343	
EBITDA	\$ (635,605)	\$ (1,592,378)	\$ 4,299,420	\$ 8,598,839	\$ 11,285,976	
Depreciation and Amortization	\$ 500	\$ 510	\$ 551	\$ 600	\$ 610	
EBIT (Operating Profit)	\$ (636,105)	\$ (1,592,888)	\$ 4,298,869	\$ 8,598,239	\$ 11,285,366	
Total Non Operating Expense (Income)	\$ -	\$ -	\$ -	\$ -	\$ -	
Pre-tax Income	\$ (636,105)	\$ (1,592,888)	\$ 4,298,869	\$ 8,598,239	\$ 11,285,366	
Net Operating Loss Carry Forwards (Opening Balance)	\$ 1,752,007	\$ 2,388,111	\$ 3,980,999	\$ 1,544,007	\$ 1,336,007	
(Used) / Accumulated	\$ 636,105	\$ 1,592,888	\$ (2,436,992)	\$ (208,000)	\$ (208,000)	
Ending Balance	\$ 2,388,111	\$ 3,980,999	\$ 1,544,007	\$ 1,336,007	\$ 1,128,007	
Taxes	\$ -	\$ -	\$ 744,750	\$ 3,356,096	\$ 3,979,744	
After-Tax Operating Profit	\$ (636,105)	\$ (1,592,888)	\$ 3,554,118	\$ 5,242,143	\$ 7,305,622	
Add:						
Depreciation and Amortization	\$ 500	\$ 510	\$ 551	\$ 600	\$ 610	
Remove (Add):						
Capital Expenditures	\$ 750	\$ 773	\$ 796	\$ 820	\$ 844	
Increase (Decrease) in Adjusted Debt & Cash Free Working Capi	\$ 401,243	\$ 591,090	\$ 1,273,902	\$ 1,433,140	\$ 214,971	
Free Cash flow	\$ (1,037,598)	\$ (2,184,240)	\$ 2,279,971	\$ 3,808,784	\$ 7,090,417	
Terminal Value						\$ 22,571,952
Present Year Adjustment to Fiscal Year End Free Cash Flow	0.33	1.00	1.00	1.00	1.00	1.00
Present Value Period	0.17	0.83	1.83	2.83	3.83	3.83
Present Value Factor at 45.0% Discount Rate	0.94	0.73	0.51	0.35	0.24	0.24
Present Value Free Cash Flow at 45.0% Discount Rate	\$ (975,126)	\$ (1,602,063)	\$ 1,153,296	\$ 1,328,708	\$ 1,705,875	\$ 5,430,558
Total Implied Value (NPV of Pro Forma Cash Flows)	\$ 7,041,247					

Total Stockholders' Equity Value Indication

As discussed earlier, the value indication derived from this analysis is the value of both interest-bearing debt and equity, or total invested capital. Hence, we subtracted debt from the value indication to arrive at an equity value indication. Additionally, the value of cash and marketable securities (non-operating assets) must be added to the operating asset to arrive at an equity value indication.

DCF Conclusion	
NPV of Pro Forma Cash Flows	\$ 7,041,247
Less: Debt	\$ 3,500,000
Plus: Cash	\$ 589,253
Fair Market Value of Equity, on a Minority Basis	\$ 4,130,500

Application of the Market Approach

For the first method, guideline public companies, we referenced a peer group of public companies to obtain relative valuation multiples. The LTM Revenue was chosen as the relative valuation basis. Publicly traded peers were chosen based on Capital IQ screening criteria and our judgment as to relevancy and appropriateness. These multiples were then applied to the Company's financials as of the Valuation Date to determine the present value of relative equity.

Secondly, the guideline transactions were chosen based on relevancy and appropriateness. The analysis for guideline transactions followed a similar approach to that of guideline public companies with one additional adjustment. After the application of the derived valuation multiple to the Company's financials as of the Valuation Date, an adjustment was made to adjust for the control premium/implied minority discount reflected in the acquisition-derived multiple. This ensured that the valuation derived from both the guideline transaction and guideline public company analysis estimated value on a minority as opposed to control basis.

Thirdly, the venture funding or back-solve approach involves estimating the value of the firm by taking the price of the last venture investment, or issuance, and calculating what liquidity event would be required for that preferred series to receive its original investment amount, given certain assumptions about the exit event and the company's capital structure. More details on this approach are provided below.

The analysis is presented in the following pages.

A) GUIDELINE PUBLIC COMPANY ANALYSIS

1) Derivation of valuation multiple

Selected Comparable Companies						
Ticker	Name	BEV	LTM Revenue	BEV / LTM Revenue	LTM Revenues vs. Target Company	Volatility (Option life term)
AMEX:INUV	Inuvo, Inc.	35.99	45.99	0.78	92.38%	94.35%
NasdaqCM:LOCM	Local Corporation	44.15	105.65	0.42	212.22%	53.13%
NasdaqGS:SEAC	SeaChange International, Inc.	153.12	126.46	1.21	254.02%	37.59%
NasdaqGS:QNST	QuinStreet, Inc.	201.69	275.37	0.73	553.14%	50.91%
<i>High</i>				1.21	553.14%	94.35%
<i>Low</i>				0.42	92.38%	37.59%
<i>Mean</i>				0.79	277.94%	58.99%
<i>Median</i>				0.76	233.12%	52.02%

Source: Capital IQ

The derived BEV/LTM Revenue multiple from the above analysis was 0.76.

We developed a list of guideline public companies (GPCs) relevant to Ad Concepts and calculated valuation multiples on the basis of LTM Revenue based on the projected data as of the August 31, 2014.

We then considered adjustments to the market multiples to account for differences between the publicly traded guideline company and Ad Concepts. These differences ultimately affect the financial and operational risk differential between Ad Concepts and the guideline public companies. Often these adjustments can be substantial due to such risk factors as size, depth of management, systems and controls, product, supply and/or customer diversification and other risk factors which are generally more prevalent in privately held companies, as opposed to publicly traded company. Most of these additional risk factors relate to size. Larger companies have the capacity to develop specialized management skills, afford stronger systems and control, have the ability to diversify operations that smaller companies do not have. We therefore adjusted the guideline public company multiples for size differences.

To make size adjustments, we considered market studies that document the evidence indicating that varying market returns are directly and strongly correlated to the size of the company. These studies¹¹ identify equity premiums demanded by the market in terms of equity returns (or equity risk premia - “ERPs”) over time. Hence, the difference in the ERP as between the GPC and the subject company is the ERP premium related to size, and the percentage difference can be used to adjust the multiple for the market-

¹¹ Roger J. Grabowski and James P. Harrington Risk Premium Report: 2013. Copyrighted by Duff & Phelps, LLC. We considered the Duff & Phelps Equity Risk Premium (ERP) studies that stratify ERP into 25 size groups by different metrics, including LTM Revenues. These studies are updated and published annually. We referenced the 2014 studies (2013 data), the most current available as of the date of the value, and relied on the Duff and Phelps studies, since it provided more detailed and more stratified return data and compared ERPs by the companies’ respective LTM Revenues.

priced risks associated with size. The formula to do so is as follows:

$$[(1 / \text{GPC Multiple}) \times (1 + ((\text{GPC [Smoothed ERP]} - \text{Subject [Smoothed ERP]}) / \text{Subject ERP}))] / 1$$

Details of Adjustments

To compute the size adjustment, we first took each of the Revenue multiples derived in the table above and converted them to an implied capitalization rate (1/multiple = implied capitalization rate). We then calculated the **implied equity risk premium (ERP)** by subtracting the Risk-Free Component of 2.83%¹².

After deriving the implied equity risk premium (ERP) for each company, we then compared the smoothed ERP for each company to the smoothed ERP for Ad Concepts. The ERP data was taken as denoted in the Duff & Phelps Risk Premium Report 2014 based on each guideline company’s respective sales as well as Ad Concepts’ sales. We applied the formula as set out in the 2014 Report as presented below:

$$\text{Smoothed Equity Risk Premium} = 17.369\% - 2.259\% \times \text{Log (LTM Revenues)}$$

We calculated the required **size adjustment** by dividing the Smoothed ERP of Ad Concepts by the Smoothed ERP of the guideline company. We then calculated the new adjusted size premium by multiplying the **implied ERP by (1+size adjustment)**.

From this new adjusted size premium, we calculated the **adjusted capitalization rate** by adding the risk-free rate to the adjusted size premium.

Finally, we calculated the new size adjusted multiples by following equation:

$$\text{Size Adjusted Multiple} = (1/\text{adjusted capitalization rate})$$

The analysis is presented below.

SIZE ADJUSTMENT TO MULTIPLES									
Metric	Multiple	Implied Cap Rate	Implied Equity Risk Premium (ERP)	Smoothed ERP	Subject ERP	Size Adjustment	Adjusted ERP	Adjusted Cap Rate	Size Adj Multiple
Inuvo, Inc. LTM Revenue	0.77	130.61%	127.78%	13.59%	15.19%	11.7%	142.8%	145.61%	0.69
Local Corporation LTM Revenue	0.45	224.18%	221.35%	12.86%	15.19%	18.1%	261.4%	264.22%	0.38
SeaChange International, Inc. LTM Revenue	1.20	83.31%	80.48%	12.61%	15.19%	20.4%	96.9%	99.75%	1.00
QuinStreet, Inc. LTM Revenue	0.71	140.09%	137.26%	11.83%	15.19%	28.4%	176.2%	179.03%	0.56

¹² Yield of 20-year T-Bill as of the Appraisal Date.

The following table summarizes the valuation multiples after our size/risk adjustments. This analysis is presented below.

SIZE ADJUSTED MULTIPLE		LTM Revenue
Inuvo, Inc.		0.69
Local Corporation		0.38
SeaChange International, Inc.		1.00
QuinStreet, Inc.		0.56
	High	1.00
	Low	0.38
	Mean	0.66
	Median	0.63
	Standard Deviation	0.26
	Coefficient of Variance	0.40

Given the low coefficient of variance for the multiples as noted above, we applied the median of the adjusted LTM Revenue multiple to Ad Concepts' financials in the calculation of the Company's Enterprise Value.

Derived valuation multiple: BEV/LTM Revenue (0.63)

Derivation of Equity Value

In order to arrive at value for the equity, we have subtracted the interest-bearing debt and added back cash to the Derived Enterprise Value.

2) Application of valuation multiple

Guideline Public Company Analysis Conclusion		
		LTM Revenue
Amount	\$	9,234,854
Selected Multiple		0.63
Derived Enterprise Value (Minority)	\$	5,771,784
Less: Debt	\$	3,976,916
Add: Cash	\$	589,253
Minority Equity Value	\$	2,384,121

Implied Minority Value of Equity: \$2,384,121

Notes:

- 1) For the guideline public companies, BEV is the sum of the market capitalization as of the Valuation Date and total debt, less, cash and equivalents.
- 2) LTM Revenue represents actual revenue for the first 8 months of fiscal year 2014 plus revenue for the last four months of fiscal year 2013 provided by Management.
- 3) Further descriptions of the guideline public companies are provided in the Appendices.

B) GUIDELINE TRANSACTIONS

1) Derivation of valuation multiple

Guideline Transactions						
Acquiror	Target	Date Closed	Gross Transaction Value	Implied BEV	LTM Revenues (mn)	BEV / Revenue
Sysorex Global Holdings Corp.	Shoom, Inc.	8/31/13	6.09	6.09	4.02	1.52
Dex One Corporation (nka:Dex Media, Inc.)	SuperMedia Inc.	4/30/13	1,523.26	1,371.26	1,495.00	0.92
Next Fifteen Communications Group plc	Connections Media LLC	4/8/13	1.85	2.31	2.65	0.87
MediaShift, Inc.	Travora Networks, Inc. (nka:MediaShift)	2/6/13	5.67	5.28	10.88	0.49
<i>Average</i>						<i>0.95</i>
<i>Median</i>						<i>0.89</i>

Source: Capital IQ

Derived valuation multiple: BEV/LTM Revenue (0.89)

In reviewing the guideline transactions, we noted significant differences in their size, as evidenced by LTM Revenues, as compared to Ad Concepts. Larger companies tend to have lower risk profiles than smaller companies as a result of greater product, customer and geographic diversification, as well as greater management depth and experience. Consequently, to reflect these differences, we made downward adjustments, as appropriate, to the valuation multiples derived above. The analysis is presented below.

Guideline Transactions - Adjusted					
Target	Subject LTM Revenue	LTM Revenues	Revenue Multiple	Downward Adjustment	Revised Revenue Multiple
Shoom, Inc.	47.67	4.02	1.52	0%	1.52
SuperMedia Inc.	47.67	1,495.00	0.92	30%	0.64
Connections Media LLC	47.67	2.65	0.87	0%	0.87
Travora Networks, Inc. (nka:MediaShift)	47.67	10.88	0.49	0%	0.49
<i>Mean</i>			<i>0.95</i>		<i>0.88</i>
<i>Median</i>			<i>0.89</i>		<i>0.76</i>

Derived valuation multiple: BEV/LTM Revenue (0.76)

Given the range of values present in the multiples, we applied the median values of the Revenue multiples to Ad Concepts' LTM financials to calculate the derived company valuation.

Derivation of Equity Value

In order to arrive at value for the equity, we first subtracted the interest-bearing debt and added back cash to the Derived Enterprise Value. We then applied a minority discount adjustment of 10% to the Equity Value (control) to ascertain the Minority Equity Value.

2) Application of valuation multiple

Minority Discount Applied: 10%

Guideline Transaction Analysis Conclusion		LTM Revenue
Amount	\$	9,234,854
Selected Multiple		0.76
Derived Enterprise Value (Control)	\$	6,994,041
Less: Debt	\$	3,976,916
Add: Cash	\$	589,253
Derived Equity Value (Control)	\$	3,606,378
Less: Minority Discount @ 10.0%	\$	360,638
Minority Equity Value	\$	3,245,740

Implied Minority Value of Equity: \$3,245,740

Notes:

- 1) LTM Revenue represents actual revenue for the first 8 months of fiscal year 2014 plus actual revenue of last four months of fiscal year 2013 provided by Management.
- 2) Further descriptions of the guideline target companies are provided in the Appendices.

C) GUIDELINE VENTURE FUNDING

The venture funding or back-solve approach involves estimating the value of the firm by taking the price of the last venture investment, or issuance, and calculating what liquidity event would be required for that preferred series to receive its original investment amount, given certain assumptions about the exit event and the company's capital structure.

For purposes of concluding a nonmarketable, minority common stock value, the appraiser and their auditors proceed to dissect the enterprise value indication, attempting to quantify the illiquidity consideration already incorporated in the pricing of the preferred security and, by extension, in the common value indication. The options pricing model (OPM), which in this report is based on the Black Scholes formula for option pricing, also incorporates a likely time horizon for the company's exit as well as an expectation of volatility in equity value until the time of the liquidity event. The OPM is used to back-solve for an exit value where the last preferred series receives its original investment amount.

The biggest limitation of this approach is that it assumes that the value of each class of shares issued by the firm is equivalent to the price of the last round of preferred shares issued by the firm. Essentially, this approach fails to incorporate the fact that the preferred investors have substantial downside protection in the presence of their liquidation preferences, which should result in a value discrepancy across share classes that is not incorporated by this approach. As a result, this method can be thought of as representing the upper bound of the enterprise value for a development stage company in the absence of solid, viable projections. We account for the difference in value across share classes later on, in the equity allocation portion of this report. It should be noted that, reserved but unissued options are not applied towards the total outstanding shares of the Company.

Preferred shares in a privately held entity have less liquidity than publicly traded securities. This second conclusion is important as appraisers rely on data from the public markets to quantify the magnitude of the illiquidity adjustment. The preferred shares have certain rights that provide the investor preferential treatment over common stock in a liquidity event. Therefore preferred securities are theoretically more liquid than the common securities in the same company. As a result, the discount between the OPM value for a preferred security and the post-money valuation of that security's financing round can establish a lower limit for an imputed discount for marketability for the common stock.

The analysis is presented below.

Reverse Option Pricing Model

Reverse Option Pricing Model			
Last Preferred Round Price Per Share		Fully Diluted Shares	
\$1.0000		2,909,273	
Ad Concepts, Inc. Breakpoints	Incremental Option Value	Last Round Preferred Stock Participation	Last Round Preferred Stock Value Implied
\$ 0.01	\$ 2,650,941	94.13%	\$ 2,495,451
\$ 3,090,548	\$ 401,196	0.00%	\$ -
\$ 3,720,548	\$ 623,224	0.00%	\$ -
\$ 4,871,748	\$ 211,536	0.00%	\$ -
\$ 5,324,778	\$ 1,638,006	0.00%	\$ -
\$ 11,019,663	\$ 1,586,591	26.14%	\$ 414,743
Total	\$ 7,111,494		\$ 2,910,194
		Per Share	\$ 1.0

Based on the analysis presented above, the implied equity value is **\$7.1 million** in order for the last round of Preferred shares to effectively “break-even.”

Selection of Methodology and Weighting

As previously discussed, it was concluded that the Income and Market approaches provided the most reasonable estimate of value for the Company as of the Valuation Date. After examination of the analyses under the approaches applied, we gave 10% weighting to the Income Approach, and the Market Approaches - Guideline Public Companies, and Guideline Transaction Methods and 70% weight to the Market Approach - Guideline Venture Funding Method.

Weighted Initial Indicative Equity Value (EV)

Equity Value Conclusion		
Determination Method	Indicative Equity Value (EV)	Weights
Income Approach (DCF)	\$ 4,130,500	10.0%
Market Approach (guideline public companies)	\$ 2,384,121	10.0%
Market Approach (guideline transactions)	\$ 3,245,740	10.0%
Market Approach (guideline venture funding)	\$ 7,111,494	70.0%
Weighted EV	\$ 5,954,082	100%

Allocation of Equity - Application of the Option Pricing Method

The Option Pricing Method treats common and preferred stock as call options on a company's equity value, with exercise prices based on the liquidation preferences of the preferred stock. Under this method, the common stock only has value if funds available for distribution to shareholders exceed the value of the liquidation preference at the time of the liquidity event. The common stock is treated as a call option that gives the owner a right, but not an obligation, to buy the underlying equity value at a predetermined or exercise price. The strike price of an option may correspond to the liquidation preference on the preferred series, the conversion value of the preferred series, or another equity value where the claim on value changes.

The modeling of common stock as a call option on the company's equity value is as follows. If, at the time of the liquidity event, the equity value is less than the total liquidation preference of the preferred stock, the value of the common stock is zero. Conversely, if the equity value exceeds the total liquidation preference, the common stock will be worth \$1.00 for each dollar of equity value in excess of the total liquidation preference (as long as the preferred stock has not converted).

As an example, assume a company has one class of preferred shares with a liquidation preference of \$35 million and that the preferred will convert to common at an equity value of \$175 million. Once converted, the preferred shares represent 20% of the outstanding shares.

If the value of the equity is below \$35 million, all proceeds are paid to the preferred shareholders. The "strike price" on this option is zero.

If the value of the equity is greater than \$35 million and less than \$175 million, all of the proceeds above \$35 million will be paid to the common shareholders. The "strike price" on this option is \$35 million.

If the value of the equity is greater than \$175 million, all of the proceeds above \$175 million will be split 80/20 between the common and preferred shares. The "strike price" on this option is \$175 million.

Each tier of value affects the value of the tier below it. The option with a \$175 million strike price limits the value of the option with a \$35 million strike price. Once the value rises above \$175 million, the common shareholders must share their claim on value with the preferred shareholders. They own 100% of the value between \$35 million and \$175 million, but only 80% of the value above \$175 million.

This method is sensitive to certain key assumptions, such as volatility, that are not measurable in a privately traded security. While publicly traded stock prices fluctuate daily, often with moves of 3% to 10% in a day, this volatility is likely not replicable in a privately held company. The change in value is not measured in days, but rather over the course of many months or years, unlike traded options, which makes the subjectivity of the volatility assumption a major limitation on the effectiveness of this method.

The Option-Pricing Model calculates the value of an option based on five inputs:

- the current value of the underlying asset;
- the investment cost or exercise price (strike price);
- the time to decision date or time to maturity of option;
- the volatility of the underlying asset; and
- the risk-free rate of interest.

The model is as follows:

$$\text{Call Value} = \overbrace{S_t N(d_1)}^{\text{Expected value of the underlying asset (incorporating consideration of dividends, if applicable) if } > X \text{ at expiration}} - \underbrace{Xe^{-r(T-t)}}_{\text{Present value of cost of investment}} * \overbrace{N(d_2)}^{\text{Risk neutral probability of current value of underlying asset (incorporating dividends if applicable) } > X \text{ at expiration}}$$

Where

$$d_1 = \text{Risk factor } \frac{\ln\left(\frac{S_t}{X}\right) + (r + 0.5\sigma^2)(T-t)}{\sigma(T-t)^{1/2}};$$

$$d_2 = \text{Risk factor } d_1 - \sigma(T-t)^{1/2};$$

X = Exercise or strike price

E = Base of natural logarithms (2.71828)

(T-t) = Time to maturity, in years

σ = Annual standard deviation of return (commonly referred to as volatility)

N() = Value of cumulative normal distribution at the points d1 and d2

Ln = Natural logarithm; and

R= Risk-free rate with time-to-maturity equal to expected time to liquidation event

S_t= Current value of underlying asset

We analyzed the capital structure of the Company using a waterfall model and determined the key liquidity transition points. At each transition point, we calculated the value of each class of share's ownership of the cash disbursed between the start of the previous transition point and the threshold of the new transition point. We used these values in our Black-Scholes model to determine the value of each option.

Using the Black-Scholes model, we calculated the incremental value of each option based on the transition points. We then multiplied each class' participation percentage at each transition point by the incremental value of the call options, and summed the results.

Analysis

The first step in applying the option pricing method is to determine the claims on the equity value and the resulting “breakpoint” or transition point at which different classes of equity security would benefit. The Preferred shares have the most senior claim on the Company’s equity value, followed by the Common shares.

The transition points used in the model are the theoretical liquidation values beyond which the allocation of value changes, based on the liquidation preference, dividend, participation rights and conversion rights of the various classes of stock. These transition points (or breakpoints) represent thresholds at which the relative allocation of value changes as amongst the classes. The transition points for the Company are noted below.

Transition Points				
			Series	Transition Value
TP 1	Start at 0			\$ 0.01
TP 2	Liquidation Preference	Preferred Shares		\$ 3,090,548
TP 3	Exercise	Issued Options		\$ 3,720,548
TP 4	Exercise	Unissued Options		\$ 4,799,798
TP 5	Conversion	Series A Preferred		\$ 4,874,748
TP 6	Conversion	Series B Preferred		\$ 11,039,823
> TP 7: All Series Participate				\$ 11,039,823

The transition points mark the beginning and ending of transition bands, where each band represents a different allocation of value as among the share classes. Each of the transition bands represent a separate call option on the equity value of the Company, and a relative allocation of the overall equity value is derived for each of these call options.

In this step, we determine the value of the call options with strike prices equal to the transition points identified above. To calculate the value of the call options (which is presented below) we have relied upon the option pricing method. The inputs used in the option pricing method to calculate the call option values set up in Appendix A.

Allocation of Equity Value using Option Pricing Method							
Value of the underlying Asset (\$) / Stock Price							\$5,954,082
S.D of the Underlying preferred share							52.02%
Annualized dividend/share of the underlying asset							0.00
Dividend yield							0.00%
Time to Expiration (years)							3.00
Riskless Rate corresponding to option life time							0.94%
Variance of Stock Returns							27.06%
Transition Band	Strike Price (\$)	Black Scholes Model				Value per Option o/s	Transition Band Value
		d1 =	N(d1) =	d2 =	N(d2) =		
TP 1	\$ 0.01	22.91	1.00	22.01	1.00	5,954,082	2,540,655
TP 2	\$ 3,090,548	1.21	0.89	0.31	0.62	3,413,427	355,293
TP 3	\$ 3,720,548	1.00	0.84	0.10	0.54	3,058,134	505,993
TP 4	\$ 4,799,798	0.72	0.76	-0.18	0.43	2,552,141	30,982
TP 5	\$ 4,874,748	0.70	0.76	-0.20	0.42	2,521,159	1,469,881
TP 6	\$ 11,039,823	-0.20	0.42	-1.10	0.13	1,051,279	1,051,279

As noted previously, each transition band (TB) identified above represents a separate call option with a claim on the equity value of the Company. The equity value allocated to each transition band is presented in the final row of the calculation above. Based on their respective rights and preferences, each of the classes in the equity structure will participate in the equity value attributable to each transition band (or call option) on a different basis. The participation table in the value of each transition band for the various classes is set out below.

Transition Band (TB) Ownership %							
	Transition Band Value	Series B Shares	Series A Shares	Common Shares	Issued Common Options	Unissued Common Options	Total
TP 1	\$ 2,540,655	94.1%	5.9%	0.0%	0.0%	0.0%	100%
TP 2	\$ 355,293	0.0%	0.0%	100.0%	0.0%	0.0%	100%
TP 3	\$ 505,993	0.0%	0.0%	97.3%	2.7%	0.0%	100%
TP 4	\$ 30,982	0.0%	0.0%	92.1%	3.9%	3.9%	100%
TP 5	\$ 1,469,881	0.0%	8.8%	85.2%	2.4%	3.6%	100%
TP 6	\$ 1,051,279	26.1%	6.5%	62.9%	1.8%	2.7%	100%
Total Value	\$ 5,954,082						

Finally, the equity value was then allocated among various classes of stock based on their respective ownership percentage in each transition band. The following table illustrates the final allocation of value among the various classes of shareholders.

Value Allocation			
	Total Class Value	# of Outstanding Shares/Options	Per Share Allocated Value
Series B Shares	\$ 2,666,443	2,909,273	\$ 0.9165
Series A Shares	\$ 347,173	725,100	\$ 0.4788
Common Shares	\$ 2,789,035	7,000,000	\$ 0.3984
Issued Common Options	\$ 68,225	195,000	\$ 0.3499
Unissued Common Options	\$ 83,206	300,000	\$ 0.2774

Preliminary Estimate of Value

As demonstrated by the table above, the result derived from the analysis found that the preliminary estimate for the value of the common stock on a minority basis is **\$0.3984 per share.**

After derivation of the preliminary estimate of value as noted above, we considered the implications of the Secondary Sale of Common Stock in December 2013. The Secondary Sale analysis follows.

Secondary Analysis - Transactions in the Security Proximate in time to the Appraisal Date

This methodology of determining value of the ownership interest being appraised is a sub-set of the market approach, discussed previously in this report. This approach references actual transactions in the equity of the enterprise being valued. Under this approach, the valuation specialist examines investments in comparable equity securities of the subject enterprise.

This approach is also referred to as the “past transactions method” and is conceptually rooted in the principle that the transactions in the security under consideration are the best indications of fair market value. The relevancy of the transaction increases where the security and the enterprise in question are the same as or close to the security and enterprise being appraised. This approach has been described as follows:

Past Transactions Method – Third-party transactions in the equity of a private enterprise generally represent the best estimate of fair market value if they are done at arm's length and are recent enough. This theory is related to the understanding that equity transactions in the public market fairly demonstrate the value of public companies. Usually the standard of whether a transaction is recent enough to contribute meaning to the analysis depends on what events have happened in the interim that might change the value of the subject.

Where the Past Transactions Method can be applied, it may arguably represent the conceptually strongest methodology to estimate fair market value. As has been noted by the AICPA, “a significant limitation of the market approach in general is that ‘true’ comparables are unlikely to exist, particularly in valuing privately held enterprises [or their underlying securities]. Another general limitation arises if the enterprise being valued has no earnings, as forecasts of financial statements may then be highly speculative.” The AICPA goes on to note that, in selecting this approach, while the basis of application is a transaction or transactions in equity securities of the enterprise, the valuation specialist should consider whether the transactions involve any stated or unstated rights or privileges whose effects may ordinarily be factored out of any appropriate determination of value.

The value of the specific security being appraised has been indicated by recent transactions involving that security and consequently we have analyzed those transactions to determine if they should be given weight in our analysis.

Recent Transactions in the Common Shares

After examination of the documents provided and discussions with Management of the Company, it was determined that there were relevant transactions in the common shares proximate in time to the Appraisal Date.

Based on information provided by Management, we understand that Jordy Robinson, a holder of the common stock, sold a portion of his shares of Common Stock. He sold

300,000 shares of Common Stock at \$0.45 per share to certain investors in the Series B Financing, for an aggregate sale price of approximately \$159,000.

These recent market transactions in the common shares would indicate a per share value of \$0.45 per share.

We reviewed the documents associated with these transactions and found that holders of Ad Concepts Common Stock determined that the Company's current and expected revenues are sufficient to advance planned operations without equity capital above the amount raised in Series B. Mr. Robinson (the "Secondary Seller") sold a portion of his shares of Common Stock to certain investors in the Series B Financing. The investors in the Series B Financing wanted a greater Equity stake than the Company was willing to issue, and were willing to purchase Common Stock as part and parcel of the Series B Financing.

Investor Notes/Commentary

It is our understanding that, at the time of the transactions noted above, none of the purchasers were officers or directors of the Company.

In discussions with Management regarding the common stock transaction, it was noted that the stocks were purchased as tied transactions to the preferred investments made by the investor(s) in the Company contemporaneous in time with the common stock transactions. Equally, the seller, being under no compulsion to sell, were only willing to part with their shares in the Company at a significant premium. The investor(s), denied the opportunity to purchase the quantity of preferred Series B shares that they desired, were prepared to pay a significant premium in order to increase their overall ownership of the Company. There being no liquid market in the stock, there were no other clear opportunities for the buyer(s) to purchase additional equity in the Company. As a result of the above facts, we do not believe these transactions were analogous to a 3rd party, arm's length transaction by a financial buyer seeking only to maximize value in the purchase of the specific shares in question. Consequently, we did not put any weight on these transactions in our analysis.

Consideration of Transaction Fair Market Value

In considering the Past Transactions method, the key issue to consider is whether the transactions in question uphold the standard of fair market value used in our analysis, and if they were recent enough to provide a relevant comparison to what the examined security would fetch in a similar exchange as of the Appraisal Date.

For the purposes of establishing the fair market value of the common stock, we followed the definition set forth in prevailing regulatory and judicial standards where fair market value is defined as the amount at which the property would change hands between a willing buyer and a willing seller, when the former is not under compulsion to buy and

the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts.

From interviewing Management and examining the transaction documents, we believe:

- The buyers were willing and under no compulsion to buy;
- The buyers were familiar with the Company's history and its existing assets and had reasonable knowledge of the risks, prospects, and potential of the Company and the common stock;
 - The transactions were not arm's length transactions. The buyers were not, at the time of purchase, officers or directors of the Company
- The transaction did not involve any stated or unstated rights or privileges other than purchase the Common Shares of the Company;
- The purchase price was paid in cash; consequently, given that there were no additional financing terms or qualifiers to the purchase price, it is our opinion that the purchase price paid fully represents the value received.

The California Supreme Court in the case of Sacramento So. Railroad Co. vs. Heilbron defined fair market value in the following manner:

“The highest price estimated in terms of money which the item will bring if exposed for sale in the open market with a reasonable time allowed in which to find a purchaser buying with knowledge of all the uses and purposes to which it was adapted and for which it was capable.”

While it is noted that the context and nature of the common stock transactions suggest that they have elements that would in principle meet the criteria laid out in judicial ruling noted above, we have determined, in our best judgment, that these investments do not provide **“a relevant comparison to what the examined security would fetch in a similar exchange as of the Appraisal Date”**, given the fact that these were tied transactions to the purchase of Series B shares and the other supervening circumstances noted earlier in this report. Given these factors, we have determined that the prior transactions in the Common Stock were not sufficiently representative of what the security would receive from a hypothetical buyer in a similar exchange as of the Appraisal Date. As such, they should not be given primary weight as an indicator of Fair Market Value.

Conclusion of Valuation Approaches

Any valuation methodology must take into account the significant risk and uncertainty facing the Company as of the Appraisal Date. In the valuation approaches used to estimate value, we have endeavored to account for this risk and uncertainty. We believe that the Income Approach and the Market approaches represent estimates of value, given the risk and uncertainty facing the Company as of the Appraisal Date.

Consequently, we have chosen to apply a weighting of 10% for the past transactions, giving the remaining weight to the Fair Market Value of Common indicated by the other methods chosen to provide an estimate of value.

	Common Stock	Weight
Value of Common Stock Indicated by Analysis	\$0.3984	90%
Price paid for Common Stock in Secondary Sale	\$0.4500	10%
Value of Class pre DLOM		0.404

Discount for Lack of Marketability (DLOM)

Because the common shares being valued represent interests in a closely held entity, adjustments must be made to the preliminary fair market value estimate arrived at on a freely-traded basis. The uncertain economic environment further reduces the appetite of investors for illiquid, hard-to-value securities such as the Company’s common shares. Based on our research and analysis, and in consideration of the results of the “**protected put**” methodology in conjunction with the Black Scholes formula, we ultimately applied a discount for lack of marketability (DLOM) of 40%. Further workbooks detailing the study of this assumption are presented in the appendices.

Application of the Discount for Lack of Marketability

Application of the discount for lack of marketability to the preliminary estimate of value is presented in the table below.

	Common Stock
Value of class pre DLOM	\$0.4036
Class's DLOM = Discount for Lack of Marketability	40.00%
Value of Class post DLOM	\$0.2422

SUMMARY AND RESULTS

Based on the preceding analysis, the estimated fair market value of the common shares of Ad Concepts on a minority, non-marketable per-share basis is:

Per common share: \$0.24 (TWENTY FOUR CENTS)

Based upon the representations of Management and the valuation analyses performed and described herein, it is our opinion that the estimated fair market value of the common stock of Ad Concepts, on a minority non-marketable basis, as of the Valuation Date, is reasonably estimated in the amount of **\$0.24 (TWENTY FOUR CENTS) per share.**

During the course of our valuation analyses, we were provided with financial and operational data regarding the Company. Without independent verification, we have relied upon these data as accurately reflecting the results of the operations and financial position of the Company. We have reviewed for reasonableness these data, in light of the industry and economic data discussed in this report and the results of our interviews of Management, and we have no reason to believe the data are unreasonable. However, as valuation consultants, we have not audited these data and express no opinion or other form of assurance regarding their accuracy or fairness of presentation.

We are unrelated to the Company, and have no current or expected interest in the Company or its assets. The results of our analyses were in no way influenced by the fee paid for our services. A Statement of Limiting Conditions under which this assignment was performed is included as an attachment, incorporated herein by reference, to this report.

STATEMENT OF LIMITING CONDITIONS

1. We have no reason to believe, and no facts have come to our attention to cause us to believe, that the information set forth in this Report is not correct.
2. In the course of this engagement, Oxford Valuation Partners has been provided with written information, oral information and data in electronic form related to the Company's financial and operating performance, its capital structure and other matters relevant to the valuation analysis. Oxford Valuation Partners has relied upon the accuracy of the financial statements provided by the Company with no independent verification of its accuracy or completeness.
3. The information furnished by others, including Company management, is presumed to be reliable and no responsibility is assumed for its accuracy or completeness. Oxford Valuation Partners issues no warranty or other form of assurance regarding the accuracy of information furnished by others.
4. We have not performed an examination or compilation of the Company's financial forecasts in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). Consequently, we do not express an opinion or any other form of assurance on the reasonableness of the forecast data or their underlying assumptions or if any of the forecasts are presented in conformity with AICPA presentation guidelines.
5. Certain financial data used in our analysis has relied upon management's adjustments to the financial statements, which are assumed to be in accordance with generally acceptable accounting principles. We have not independently verified the accuracy or completeness of the data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness.
6. Oxford Valuation Partners assumes no hidden or unapparent conditions regarding the subject assets, properties or business interests. We did not consider the impact of any liens or encumbrances except as specifically stated and did not conduct any physical inspection of any properties or assets of the Company. For the purposes of the valuation analysis we have assumed that there is full compliance with all federal, state and local laws and that all required licenses or consents have been or can be obtained from the requisite regulatory authority.
7. This Report has been prepared solely for the person or persons to whom it is addressed and solely for the purpose stated; this Report may not be used for any other purpose, and no party other than the

Company may rely on it for any purpose whatsoever. Except as set forth in this Report, neither this Report nor any portions hereof may be copied or disseminated through advertising, public relations, news, sales, Securities and Exchange Commission disclosure documents or any other media without the express written consent of Oxford Valuation Partners. Possession of this report does not carry with it the right of publication.

8. In accordance with US Treasury rules, the advice contained herein was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding penalties that may be imposed by the Internal Revenue Code or applicable state or local tax laws.
9. The opinions of value contained herein are not intended to represent the value of the subject assets at any time other than the Valuation Date that is stated in this Report. Changes in market conditions that take place after the Valuation Date could result in opinions of value that are materially different from those offered and Oxford Valuation Partners assumes no responsibility for such changes, except as otherwise stated in this Report. We offer no opinion as to whether the Company would actually be sold for the amount offered as its fair market value.
10. Our fees for this service are not contingent upon the valuation opinion expressed herein, and neither Oxford Valuation Partners nor any of its staff have a present or intended financial interest in the Company.
11. Oxford Valuation Partners is not required to provide additional work or services, or to give testimony or be in attendance in court with reference to the assets, properties or business interest in question or to update any report, analysis or conclusion unless arrangements acceptable to Oxford Valuation Partners have been separately agreed with the Company. Oxford Valuation Partners reserves the right to make adjustments to the analysis, opinion and conclusions presented in this Report as we deem necessary in consideration of additional or more reliable data that may become available.

APPENDICES

APPENDIX A

Black Scholes Assumptions

Black Scholes Assumptions underlying the Option Pricing Method for Equity Allocation		Value
Stock Price/Equity Value	\$	5,954,082
Years to Maturity/Time to liquidity		3.0
Risk Free Rate		0.94%
Volatility		52.0%

Notes:

- 1) Management gave no projection for a liquidity event. Given that the Company is still in an early stage of development we assumed an orderly exit in the medium term with an exit date of August 30, 2017.
- 2) The Risk Free Rate is benchmarked to the treasury notes rate for the corresponding option life period, as of the Valuation Date.
- 3) Volatility is benchmarked based on a basket of comparable public companies as noted in the section of the report outlining the application of the market method. Brief description of comparable public companies is provided in Appendix D.

APPENDIX B

Discount for Lack of Marketability (DLOM)

Perhaps the most common valuation discount is the discount for lack of marketability (“DLOM”). The DLOM can be the valuation adjustment with the largest monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. Minority stockholders in the Company’s common stock have no access to an active public market for their shares and cannot force registration to create marketability.

As the AICPA Practice Aid notes “an example of a difference between public and private enterprises is the lower marketability, in general, of the securities of a private enterprise as compared with those of a public enterprise. In valuing privately issued securities, valuation specialists may adjust for that difference by using a marketability discount or discount for lack of marketability.”

A number of empirical studies provide evidence for the existence and magnitude of the DLOM. One type, restricted stock studies, compares the trading prices of a company’s publicly held stock sold on the open market with those of unregistered or restricted shares of the same company sold in private transactions. Another type, pre-IPO studies, examines the prices of transactions while the company was still private, compared to the eventual IPO price. Both types of studies were reviewed for guidance as to the appropriate discount for lack of marketability to apply to a minority common stock interest in the Company.

Restricted stock studies are typically separated into pre-1990 studies, post-1990 studies, and a study prepared by Lance s. Hall of FMV Opinions, Inc. (“FMV Opinions Study”). The studies based on pre-1990 restricted stock transactions concluded discounts for lack of marketability ranged between 25.8 percent and 45.0 percent. The post-1990 studies concluded a range between 13.5 percent and 27.1 percent. The FMV Opinions Study, published in September 2003, compared a pre-1997 study (2-year holding periods) with 182 restricted stock transactions occurring between 1997 and 2000 (1-year holding periods) to examine the impact of the holding period on lack of marketability. The most important aspect of the FMV Opinions Study, however, is that it helps to isolate the effect of stock price volatility on the magnitude of the observed discount. The results of this study and various other studies, including Firm Value and Marketability Discounts by Bajaj, et al, indicate that volatility is a primary determinant of discounts for lack of marketability. The transfer restrictions, the likely investment holding period, and the presence of significant cash distributions are also generally regarded as having a significant effect on the discount.

Pre-IPO studies show higher reported discounts than the restricted stock studies, with discount as high as 90%.

The studies indicated that discounts in the 20 to 40 percent range are common for ownership interests that are privately held and can be traded in as little as 24 months. They also indicate that both holding period and volatility are significant and positively correlated with the size of the discount. To date, however, no regression model has been developed which can predict the size of the lack of marketability discount associated with a specific ownership in a privately held company. The development, high estimated volatility related to expected earnings, and lack of near-term expected distributions, a discount towards the high end of the indicated would be considered reasonable for the Company. Accordingly, it is our opinion that, based on a qualitative approach, a lack of marketability discount of 40 percent is reasonable for a minority interest in the Company's stock.

In addition to the empirical studies, we also looked at the **Protective Put Approach**, a quantitative approach to the derivation of the discount for lack of marketability. In the Protective Put Approach the cost of a put option calculated 'at the money' acts as an estimate for the discount for lack of marketability. The value of the put option has been calculated using the Black-Scholes option-pricing model.

A put option provides a buyer the right but not the obligation to sell the investment held by him at the strike price of the put option. By purchasing a put option, the buyer ensures the liquidity of his investment as he now has the right to sell the investment at the strike price of the put option. This cost of the put option becomes the implied discount for an investor holding stock of a privately held firm, as this stock lacks marketability. Thus, by calculating the value of a put option at a strike price equal to the value of the underlying stock, we can estimate the discount for lack of marketability. This is then deducted from the value of the underlying stock to arrive at the fair market value.

The application of the Protective Put Method to the valuation of the common stock of Ad Concepts is presented in the table below:

DLOM (Protective Put Methodology)	
INPUT VARIABLES	
Stock Price	\$0.4036
Exercise Price	\$0.4036
Term	3.00
Volatility	52.0%
Annual Rate of Quarterly Dividends	0.0%
Discount Rate - Bond Equivalent Yield	0.9%
INTERMEDIATE COMPUTATIONS	
Present Value of Stock Ex-dividend	\$0.4036
Present Value of Exercise Price	\$0.3924
Cumulative Volatility	90%
CALL OPTION	
Proportion of Stock Present Value	68.5%
Proportion of Exercise Price PV	-33.8%
Call Option Value	\$0.1440
	35.7%
PUT OPTION	
Proportion of Stock Present Value	-31.5%
Proportion of Exercise Price PV	66.2%
Put Option Value	\$0.1328
	32.91%

Final Value of Discount for Lack of Marketability (DLOM)

We considered the background and research presented above, as well as management representations received. Due to the fact that the quantitative approach does not capture the impact of anticipated future dilution, and the Company is in an early stage of development with future funding rounds highly likely, our selection for lack of marketability gave additional weight to the qualitative analysis. Based upon the above analysis we have selected a discount for lack of marketability for the common stock of Ad Concepts is reasonably estimated at **40%**.

APPENDIX C

Discount for Lack of Control (DLOC)

A discount for lack of control is a reduction in the control value of the subject to reflect the fact that a non-control owner cannot control the daily activities or policy decisions of an enterprise. Such activities and policy decisions can include the ability to: appoint management; determine management compensation and perquisites; set policy and change the course of business; acquire or liquidate assets; select people with whom to do business and award contracts; make acquisitions; liquidate, dissolve, sell out or recapitalize the company; register the company's stock for a public offering; declare and pay dividends; change the articles of incorporation or bylaws; and/or block any of these actions.

Additionally, except as state statute may otherwise apply, non-control shareholders do not have access to the underlying asset values since they cannot force liquidation. Given the foregoing, the owner of a controlling interest in an enterprise enjoys very valuable rights that an owner who is not in a controlling position cannot participate.

Regarding the discount for lack of control, H. Calvin Coolidge, in the July 1980 Illinois Bar Journal wrote:

The holder of a minority interest can at best elect only a minority of the directors and, for corporations chartered in states which do not permit cumulative voting, he may not be able to elect even one director. Lacking control of the board of directors, he cannot compel payment of dividends which must be declared equally and which would give him his pro rata share of earnings. Lacking control of the board of directors, he cannot compel his election as an officer or his employment by the corporation, which the holders of the controlling interest can do, often with the resultant no voice in corporate affairs and is at the mercy of the holders of the controlling interest who have no reason to pay anything but a token dividend, if any, and no reason to buy out the minority holder except at a nominal price.

A willing buyer contemplating purchase from a willing seller of a minority interest, being under no compulsion to buy (which would exclude a buyer already owning some shares whose new purchase would cover control), would suffer the same disadvantages of lack of control. The buyer is asked to make an investment with no assurances as to the certainty of current yield or as to when, or the amount at which, he may be able to liquidate his investment. Regardless, therefore, of the value of 100 percent of the corporation, the buyer will not purchase a minority interest except at a discount from its proportionate share of the value of 100 percent of the corporation.

In theory, the size of the discount is directly related to the level of control in the fundamental business decisions between a controlling interest and a minority interest. It would be a weak and subjective argument to assign a discount rate based solely on a valuer's judgment of any particular situation, the valuer not being privy to shareholder and/or board discussions as to the relative amount of control between the controlling interest and the minority interest.

Empirical Evidence

Several empirical studies have been undertaken to attempt to isolate control issues from other issues to measure the value of control and, hence, the lesser value of lack of control.

The market evidence available to assist in quantifying control premiums and/or minority discounts generally compares control acquisition prices with pre-acquisition minority interest transaction prices. The theory behind a control premium study is to measure the premium over minority interest transaction prices at which a controlling interest in the same company was transacted. The value of such a study is to minimize other factors affecting price by comparing public market trading prices before an announcement of merger or acquisition to the merger/acquisition price. The percentage of the acquisition price over the prior minority trading price is commonly called the control premium. Conversely, the percentage below the acquisition price at which the minority stock had been trading is commonly called the minority discount.

For the purpose of evaluating the amount of discount appropriate for a lack of control interest in the subject company we reviewed two extensive studies on control premiums/minority discount, both of which are summarized below. The first is found in the Mergerstat Control Premium Studies, published by Business Valuation Resources, and the second in Houlihan, Lokey, Howard & Zukin's *Control Premium Study*.

Mergerstat Review describes its database as follows:

The Mergerstat Review Research Department tracks publicly announced formal transfers of ownership of at least 10 percent of a company's equity where the purchase price is at least \$1 million, and where at least one of the parties is a U.S. entity. These transactions are recorded as they are announced, not as they are completed. Open market stock purchases are not recorded. For sellers in our database with competing bids, only the highest offer is included in our calculations. Canceled transactions are deducted from total announcements for that period. Unless otherwise noted, all merger and acquisition statistics contained in this publication reflect completed or pending transactions as of the end of the applicable period.

Mergerstat Premium Data			
Minority (Lack of Control) Discounts Implied by Control Premiums			
Year	Average Premium Offered %	Median Premium Offered %	Implied Lack of Control Discount (Median) %
2000	49.20%	41.10%	29%
2001	57.20%	40.50%	29%
2002	59.70%	34.40%	26%
2003	62.30%	31.60%	24%
2004	30.70%	23.40%	19%
2005	34.50%	24.10%	19%
2006	31.50%	23.10%	19%
2007	31.50%	24.70%	20%
2008	56.50%	36.50%	27%
2009	58.70%	39.80%	28%
2010	51.50%	34.60%	26%
2011	54.10%	37.80%	27%
2012	46.20%	37.10%	27%

The millions of daily share transactions on the public stock exchanges are minority transactions since each small block of the shares traded lack control. But each year, a controlling interest in hundreds of these public companies is purchased. In most cases, the price paid to acquire control represents a premium over the market price at which the stock had traded as a minority interest. A control premium of 33% translates to a 25% discount for lack of control. A 15% control premium translates to a 13% discount for lack of control. Therefore, minority discounts can be calculated by using the following formula:

$$1 - (1 / (1 + \text{control premium}))$$

The table above presents the average and median premiums offered over market price for transactions collected from this research (as published in Mergerstat Review). The right-most column represents the calculated lack of control discount value.

Houlihan Lokey Control Premium Study

Houlihan, Lokey, Howard & Zukin’s Control Premium Study provides a similar type of analysis but attempts to overcome any potential data distortions attributable to stock price run-ups resulting from speculative anticipation of a possible transaction by showing minority stock prices one day, one week, one month and two months before the announcement date. Further, the Control Premium Study reviews only cash tender transactions, which reduce the size of the data pool somewhat, but provide us with a

“cash equivalent” price to help determine the fair market value of the appraisal subject by making the comparative premiums/discounts more applicable to the definition of value assumed herein.

The Control Premium Study evidences discounts somewhat higher than the Mergerstat studies, with premiums ranging over the past several years from 5 to 10 percentage points over Mergerstat, which translates to minority discounts of 25 to 35 percent.

Qualitative Analysis

Finally, we reviewed the ownership characteristics of the subject interest, as well as the ownership structure and state statutes relating to ownership control relevant to the subject interest as available. We then considered the relative degree of control the subject interest has relative to a control interest, based upon relevant prerogatives of control. The analysis is presented below.

Control Characteristics	Control Interest	Non-Control Interest	Effect on Discount
Appoint management	Yes	No	Increase
Determine management compensation and perquisites	Yes	No	Increase
Set Policy and change the course of business	Yes	No	Increase
Acquire or liquidate assets	Yes	No	Increase
Select people with whom to do business and awards contracts	Yes	No	Increase
Make acquisitions	Yes	No	Increase
Liquidate, dissolve, sell out, or recapitalize the company	Yes	No	Increase
Sell or acquire treasury shares	Yes	No	Increase
Register the company's stock for a public offering	Yes	No	Increase
Declare and pay dividends	Yes	No	Increase

While the qualitative analysis cannot provide a statistical tool from which we can pinpoint an exact discount within the range, we believe that the qualitative analysis supports an application of a discount for lack of control in this case. We have therefore applied a 10 percent lack of control discount to the subject control marketable common stock interests.

APPENDIX D

Guideline Public Companies

Inuvo, Inc. (AMEX:INUV)

Inuvo, Inc., together with its subsidiaries, operates as an Internet marketing and technology company that delivers advertisements to Websites and applications reaching desktop and mobile devices in the United States. It operates in two segments, Partner Network, and Owned and Operated Network. The Partner Network segment offers ValidClick, a service platform that helps the owners of Websites and mobile applications monetize their properties, as well as provides pay-per-click solutions where advertisements are targeted to consumers based on demographics and search behaviors. This segment also offers affiliate management solutions that provide advertisers to sign up, manage, and track the activities of their publishers through a privately-branded platform. The Owned and Operated Network segment builds and operates Websites under the ALOT brand; offers local directory listing service at local.alot.com; and provides advertisements primarily through health.alot.com, finance.alot.com, and careers.alot.com. This segment also offers ALOT Appbar, a software application that users install in their Web browsers, which provides access to weather, radio, shopping, social networking, and other useful information. The company provides its products and services primarily under ValidClick, ValidClick AdExchange, MyAP, Second Bite, Kowa!Bunga, Inuvo, Zubican, LocalXML, and Yellowise names. Inuvo, Inc. is headquartered in Conway, Arkansas.

Local Corporation (NasdaqCM:LOCM)

Local Corporation, a technology and advertising company, provides search results to consumers who search online for local businesses, products, and services in the United States. The company operates in two segments, Paid Search and Daily Deals. It offers various local search advertising products and services comprising Local.com, a Website and app, which reaches approximately 20 million monthly unique visitors (MUVs); hosted network, a database of local business and product listings along with ad feeds, which consists of approximately 1,600 partner Websites and reaches approximately 7 million MUVs; and display and pre-roll video networks that provide advertisers with additional reach and exposure for brands through distribution of customized display and pre-roll ads. The company also provides pay-per-call network that connects online and on-the-go consumers searching for local businesses and services in specific categories with relevant advertisers providing those services through pay-per-call ads; and Krillion local shopping platform, which comprises approximately 120,000 retail store locations and 3 million localized products, as well as provides store information, including contact information, hours of operation, driving directions, and maps for the retailers who carry that product. In addition, it offers Havvit shopping app that enables consumers to find products near them, track savings, compare prices, and make a purchase. The company was formerly known as Local.com Corporation and changed its name to Local Corporation in September 2012. Local Corporation was founded in 1999 and is headquartered in Irvine, California.

SeaChange International, Inc. (NasdaqGS:SEAC)

SeaChange International, Inc. provides multi-screen videos products and services that facilitate the aggregation, licensing, management, and distribution of video and television advertisements to cable system operators, and telecommunications and media companies worldwide. It offers multi-screen television products, including SeaChange Adrenalin, a multi-screen television platform that enables service providers to manage, monetize, and deliver a seamless viewing experience across televisions, personal computers (PCs), tablets, smart phones, and other IP-enabled devices; SeaChange Nitro, a subscriber experience software that personalizes the multi-platform subscriber experience; and SeaChange AssetFlow that is used to receive, manage, and publish content for on-demand viewing on televisions, tablets, PCs, and other consumer devices. The company also provides television advertising products, such as SeaChange Infusion Advanced Advertising Platform to maximize advertising revenue across multi-screen, linear, on-demand, and over-the-top viewing; SeaChange AdPulse, an on-demand advertising software to capitalize on video-on-demand television services with ad placements; and SeaChange AdFlow that enables advertisements to be ready for insertion, as well as handles advertisement file processing, verification, transcoding operations, and confirms playout for revenue booking. In addition, it provides Nucleus, a video gateway software; and SeaChange Rave, a OTT video platform for media companies and service providers, as well as professional services, installation, training, project management, product maintenance, technical support, and software development related services. The company sells and markets its products and services through a direct sales organization, independent agents, and distributors. SeaChange International, Inc. was founded in 1993 and is headquartered in Acton, Massachusetts.

QuinStreet, Inc. (NasdaqGS:QNST)

QuinStreet, Inc., an online performance marketing company, provides customer acquisition programs for its clients in the United States and internationally. The company operates through Direct Marketing Services (DMS) segment. It provides qualified leads, clicks, calls, customers, and display advertisements or impressions. The company owns and operates Websites, such as Schools.com, OnlineDegrees.com, and AlliedHealthWorld.com in education client vertical; CarInsurance.com, Insurance.com, Insure.com, CardRatings.com, and MoneyRates.com in financial services client vertical; eWeek.com and ITBusinessEdge.com in business-to-business technology client vertical; reliableremodeler.com and improvementcenter.com in home services client vertical; and ElderCarelink.com in medical client vertical. The company was founded in 1999 and is headquartered in Foster City, California.

APPENDIX E

Guideline Target Companies

Shoom, Inc.

Shoom, Inc. provides cloud-based data analytics and enterprise solutions to the media, publishing, and entertainment industries in the United States. The company offers eTearSheets, an electronic tearsheet solution that provides proof-of- publication products and services; eInvoice, an invoicing solution that combines eTearsheets service to provide publishers and advertisers with an organized billing and verification service; Ad Delivery solution; and ePaper, an e-edition solution that converts various publications into an online e-edition without the need for PDF downloads, proprietary viewers, or plug-ins. Shoom, Inc. was founded in 1998 and is based in Encino, California. Shoom, Inc. is a subsidiary of Sysorex Global Holdings Corp.

SuperMedia Inc.

SuperMedia Inc. operates as a yellow pages directory publisher in the United States. The company also provides digital advertising solutions; and white pages directories. Its yellow pages print directories offer a range of paid advertising options, such as listing options, in-column advertising options, display advertising options, and specialty advertising. The company's portfolio of local media solutions includes the Superpages directories; Superpages.com, a digital local search resource on desktop and mobile devices; and Superpages.com network, a digital syndication network that places local business information across Websites, mobile sites, and mobile applications. In addition, it offer solutions for social media, digital content creation and management, reputation management, and search engine optimization, as well as provides SuperGuarantee, a marketing program. The company was formerly known as Idearc Inc. and changed its name to SuperMedia Inc. in January 2010. SuperMedia Inc. is headquartered in Dallas, Texas. As of April 30, 2013, SuperMedia Inc. operates as a subsidiary of Dex One Corporation.

Connections Media LLC

Connections Media LLC, a digital agency, provides digital campaign and media services to political, advocacy, and corporate communications clients. The company offers digital strategy, social media campaigns, advertising and promotion, customized technology development, and campaign management services; and Web, print, and identity design services. It serves associations, issue groups, and Fortune 500 companies; and candidates for state, local, and federal offices. The company was founded in 2004 and is based in Washington, District of Columbia with an additional office New York City, New York. As of April 8, 2013, Connections Media LLC operates as a subsidiary of Next Fifteen Communications Group plc.

Travora Networks, Inc. (nka:MediaShift)

MediaShift, a digital ad tech company that monetizes WiFi networks and Web publishing sites targeting on-the-go consumers in the United States. The company operates in two business lines, Ad Network and Consumer. The Ad Network business line markets and sells online advertiser ads to travel service providers through a

propriety network of Web publishers. The Consumer business line owns and operates digital travel Websites. It serves advertisers, publishers, networks, and OEMs. The company is headquartered in Newport Beach, California.

APPENDIX F

Sources of Information

Oxford Valuation Partners spoke with the following person:

Dan Roper, VP Finance at Ad Concepts, Inc.

Information provided by Management included the following:

Audited and unaudited historical financial statements

The Company's Articles of Incorporation and other corporate documents.

Various marketing materials, reports and analyses prepared by management including information presented on the Company's web site.

Board presentations and financial updates.

The Company's most recent capitalization table, as of the Valuation Date.

In addition, we consulted the following sources, among others:

Duff and Phelps 2014 Valuation Handbook.

A Task Force of the AICPA. *Valuation of Privately-Held-Company Equity Securities Issued as Compensation.* AICPA. 2004.

AICPA "Statement on Standards for Valuation Services No. 1 – Valuation of a Business, Business Ownership Interest, or Intangible Assets", AICPA, 2007.

Internal Revenue Manual *Business Valuation Guidelines*, IRM 4.48.4, Engineering Program, Business Valuation Guidelines" (July 27, 2006)

Mard, M.J. et al, *Valuation for Financial Reporting: Fair Value Measurements and Reporting, Intangible Assets, Goodwill and Impairment* (Hoboken, N.J.: John Wiley & Sons, 2007).