

# Doubleday, Inc.

Summary Valuation Report of  
100 Percent of the Equity Ownership  
as of March 31, 2011

Drysdale  Valuation

**SAMPLE REPORT:** The names and amounts in this sample report are fictionalized and do not represent any actual individuals or companies. Any similarities to actual individuals or companies are purely coincidental.

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April 30, 2011

Ty Cobb  
President  
DOUBLEDAY, INC., dba DOUBLEDAY.NET  
9999 Main Street  
Cooperstown, New York 13326

Re: Valuation of Doubleday, Inc., dba Doubleday.net

Mr. Cobb:

Drysdale Valuation, PLLC has performed a valuation (appraisal) of a 100 equity ownership interest in Doubleday, Inc., dba Doubleday.net as of March 31, 2011. The following summary report is intended to provide our estimate (opinion) of the fair market value on a controlling, non-marketable basis.

This valuation was performed solely for used as a basis for pricing business operations of Doubleday, Inc. in a potential sale transaction to an related entity. The resulting estimate of value should not be used for any other purpose or by any other party.

Based on our analysis, as described in the following summary valuation report, we have concluded that the fair market value of a 100 percent equity ownership interest as of March 31, 2011, on a non-controlling, non-marketable basis is:

**One Hundred Seventy-Six Thousand Dollars**  
**\$176,000**

This estimate and opinion of value is subject to the Statement of Assumptions and Limited Conditions found in the appendices to the report. This letter, and the following report, are a single document and are not to be considered separately.

Respectfully,  
DRYSDALE VALUATION, PLLC



Don M. Drysdale, CPA/ABV, ASA



Kyle D. Mohr

**SAMPLE REPORT: Not representative of any actual individuals or companies.**

**Drysdale Valuation, PLLC**

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# Introduction

## **Subject of the Valuation**

### **Subject Entity**

Doubleday, Inc. dba Doubleday.net (Doubleday or Company) is a corporation organized under the laws of the State of New York, and is located in Cooperstown, New York. It operates an online marketplace for baseball memorabilia collectors and dealers to sell their items over the Internet. Doubleday has elected S-corporation status with the Internal Revenue Service.

### **Background**

Ted Williams and Ty Cobb formed Doubleday in 2008 after a related online business they owned was adversely impacted by actions taken by GiganticOnlineAuctions.com. The earnings of Doubleday were insufficient to replace the previous business, and the owners filed for personal bankruptcy in 2009.

### **Products**

Doubleday maintains a website, Doubleday.net, where collectors and dealers of baseball memorabilia can display and sell their products over the Internet. It provides such artisans a marketplace for their items without the need to establish and maintain their own websites. Doubleday also facilitates credit card transactions for their members.

Doubleday offers collectors and dealers different types of memberships. The basic level of membership, referred to as Minor League Membership, is free and only provides minimal features for selling items. There are no listing fees or commissions. Minor League members are provided features such as: unlimited listing, a personal URL, payment processing, seller rating feedback, Google analytics, and social media tools, to name a few.

Major League members are provided with the same features that Minor League members have, plus additional features such as: a picture gallery, Facebook kiosk, coupon codes, an seller bio, promo labels, seller blog, additional payment functions and many other related features. The cost of the Major League membership is \$14.95 per month.

### **Subject Ownership**

**Ownership.** Ted Williams and Ty Cobb own Doubleday subject to bankruptcy court jurisdiction.

**Subject Interest.** The subject Interest is a 100 percent equity ownership interest in the business operations of Doubleday, Inc. as of March 31, 2011 (Valuation Date).

### **Purpose of the Valuation**

This valuation engagement is to determine an estimate of value as a basis for pricing the business operations of Doubleday in a potential sale to a related entity. Mr. Williams and Mr. Cobb, along with certain employees, have proposed the formation of a separate business entity to purchase the business operations of Doubleday from the bankruptcy trustee. This report and valuation are restricted for this purpose only, and are not to be used for any other purpose or by any other party.

This report is not designed nor intended to be used for selling this business to outside individuals or other entities. It may not contain sufficient descriptive information to satisfy an uninformed prospective buyer of the Subject Interest. It is also not designed to adequately portray desirable qualities of the business, which may be informative to a potential buyer. Such information should be addressed in an offering document designed for a that purpose.

### **Standard of Value**

The standard of value is "fair market value." IRS Revenue Ruling (Rev. Rul.) 59-60, 1959-1, C.B. 237 defines fair market value 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.*

Rev. Rul. 59-60 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."

The business operations of Doubleday may be more valuable to a specific buyer that may have strategic or synergistic reasons for making an acquisition. Fair market value does not contemplate such a transaction.

### **Premise of Value**

Drysdale Valuation, PLLC has assumed that the business operations of Doubleday will continue in its current form, operating its current line(s) of business. Drysdale Valuation, PLLC has also assumed that there is no planned or contemplated discontinuance of any line of business nor any liquidation of the business operations.

### **Basis of Value**

The Subject Interest is a controlling interest. A controlling interest has the ability to direct administration, management and operations of the Company. This may increase the value of the Subject Interest relative to an equivalent ownership interest that lacks control.

The Subject Interest lacks marketability. As discussed later in this report, marketability (also referred to as liquidity) is the ability to sell and liquidate an ownership interest within a short period of time. This lack of marketability may cause the ownership interest to be less valuable than an equivalent ownership interest that is marketable.

### **Valuation Report**

#### **American Society of Appraisers**

This engagement was conducted in accordance with the Business Valuation Standards (BVS) of the American Society of Appraisers (ASA) and is intended to be an appraisal, which is described by the BVS as follows:

*An Appraisal is the act or process of determining the value of a business, business ownership interest, security or intangible asset.*

*The objective of an appraisal is to express an unambiguous opinion as to the value of a*

*business, business ownership interest, or security, which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation.*<sup>1</sup>

This report is intended to be a “summary report.” The BVS calls for business valuation reports to comply with the minimum content requirements of Standard 10.2 of the Uniform Standards of Professional Appraisal Practice (USPAP).<sup>2</sup> Under USPAP this report is also referred to as a “Restricted Use Appraisal.”

#### **American Institute of CPAs**

This valuation engagement was conducted in accordance with the Statement on Standards for Valuation Services (SSVS) No. 1 of the American Institute of Certified Public Accountants (AICPA), which describes a valuation engagement as follows:

*Valuation engagement--A valuation analyst performs a valuation engagement when (1) the engagement calls for the valuation analyst to estimate the value of a subject interest and (2) the valuation analyst estimates the value (as outlined in paragraphs 23-45) and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation as a conclusion of value; the conclusion may be either a single amount or a range.*<sup>3</sup>

This report is intended to be a summary report, estimating<sup>4</sup> a conclusion of value. SSVS describes a summary report as follows:

*A summary report is structured to provide an abridged version of the information that would be provided in a detailed report, and therefore need not contain the same level of detail as a detailed report.*<sup>5</sup>

1. American Society of Appraisers, Business Valuation Standards, *BVS-I General Requirements for Developing a Business Valuation*, II(C)(1)(a), (b).
2. Ibid., BVS-VII
3. American Institute of Certified Public Accountants, SSVS No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, ¶ 21a.
4. The American Society of Appraisers uses the term “estimate” in connection with a Limited Appraisal, which is lower in scope than an “opinion.” It uses the term, “opinion,” in connection with an Appraisal, its highest scope of work. On the other hand, the AICPA uses the term, “estimate” in connection with its highest scope of work. For this report, the terms opinion and estimate are considered synonymous.

Differences exist in the terminology of the SBVS and the SSVS. We have generally used the terminology of the SSVS in this report.

This valuation was performed as of March 31, 2011 and this report was issued on April 30, 2011. We have neither obligation nor responsibility to update this report for events, circumstances or information that comes to our attention subsequent to the date of this report.

### Valuator Independence

Drysdale Valuation, PLLC is an independent valuation firm. No owner, officer or employee of Drysdale Valuation, PLLC has any existing or contemplated financial interest in the Company. Drysdale Valuation, PLLC is not, nor has it acted as an advocate for the Company. The fee for this analysis was not based on the opinion of value provided.

### Valuation Process

In performing this analysis, we have viewed the Company from the standpoint of an independent, outside investor. We have considered factors a reasonable and prudent outside investor would consider, for the purpose of estimating a fair and reasonable rate of return such an investor would expect to receive.

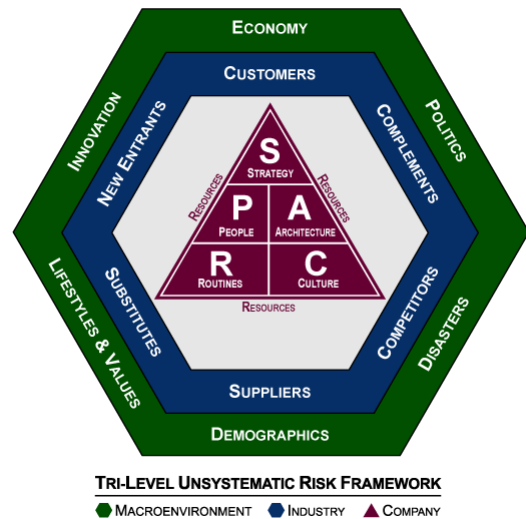
The value of a business enterprise, at its most basic level, is the function of the following:

- ◆ Expected cash flows to the owner;
- ◆ Expected future growth in those cash flows; and
- ◆ Perceived risks associated with the investment.

Each of these items is addressed in this report.

One of the tenets of valuation is that investors are risk averse. This means that investors will either avoid risk or expect to earn a higher rate of return on investments that carry higher risk. One of the objectives of this analysis is to develop a risk profile, and use it to develop an appropriate expected rate of return on investment in the Company.

### Exhibit 1: Tri-Level Risk Framework



Source: Beckmill Research. Used with permission.

To develop the risk profile, we have used the tri-level risk framework developed by Warren Miller at Beckmill Research. It breaks unsystematic risk (aka diversifiable risk) into three broad categories: macroenvironmental risk, industry risk, and company risk (see Exhibit 1). The first of these categories, macroenvironmental risk, focuses on risks external to the Company, and over which it has no control. The second, industry risk, represents items over which the Company may have some control. The last, company risk, includes items within the control of the Company. Each of these categories is addressed in this report, and summarized in the Risk Profile Chapter.

We have considered the factors stated in IRS Revenue Ruling 59-60 in developing the risk profile. Although originally developed for tax valuation purposes, and expressed in terms of a corporation, these factors are also applicable to valuations for other purposes and for entities having non-corporate structures. They include both internal and external influences that can impact the value of the Subject Interest. These factors are as follows:

- ◆ The nature of the business and the history of the enterprise from its inception.

5. American Institute of Certified Public Accountants, SSVS No. 1, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset, ¶21a.

- ◆ The economic outlook in general and the condition and outlook of the specific industry in particular.
- ◆ The book value and financial condition of the business.
- ◆ The earnings capacity of the company.
- ◆ The dividend-paying capacity.
- ◆ Whether or not the enterprise has goodwill or other intangible value.
- ◆ Sales of the stock and size of the block of stock to be valued.
- ◆ The market price of businesses engaged in the same or similar line of business, having their ownership interests actively traded in a free and open market, either on an exchange or over-the-counter.<sup>6</sup>

The procedures employed in valuing the Subject Interest included such steps as we considered necessary, including but not limited to following:

- ◆ A visit to the Company's headquarters located in Cooperstown, New York on March 3, 2011 and March 21, 2011;
- ◆ Discussions with management regarding the past and future operations of the business;
- ◆ An analysis of the historical and estimated future financial condition of the Company;
- ◆ An analysis of the industry in which the Company operates;
- ◆ An analysis of the macroenvironmental conditions, including economic conditions, as of the valuation date;

- ◆ A comparative analysis where possible of guideline companies; and,
- ◆ An analysis of other pertinent facts and data resulting in the conclusion of value.

### **Sources of Information**

We have read, studied, considered, and relied on various information sources for this valuation. These included both internal and external information sources. A detailed listing of information we relied upon is in the appendices to this report.

The approaches and methodologies used in this valuation 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 in accordance with generally accepted accounting principles (GAAP). Because 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 do assume that the financial and other information provided to us is accurate and complete, and we have relied upon it in performing this valuation.

### **Limiting Conditions**

We include a Statement of Assumptions and Limiting Conditions as an appendix to this report. This Statement of Assumptions and Limiting Conditions describes important conditions, restrictions, and assumptions used in this analysis. We have further referenced additional assumptions and restrictions throughout this report. Users of this report should read and study the entire report in order to understand the conclusion of value.

6. Rev. Rul. 5-60, §4.01.

# Risk Profile

*Based on the risks identified, we believe an appropriate discount rate for an investment in the Company is appropriately larger than a rate of return expected for an investment in a small publicly traded stock, and similar to the return expected for an investment in a late-stage venture capital investment.*

### Types of Risk

Whenever money is invested, an investor risks losing his or her money. As the risk of loss increases, an investor is willing to pay less for the investment. When the price an investor is willing to pay decreases, the potential return on the investment increases. Thus, the value of an investment relates inversely to the risks associated with it. Financial theory identifies three broad categories of risk: maturity risk, systematic risk, and unsystematic risk.

#### Maturity Risk

Maturity risk is the risk that the value of an investment will change over time as a result of overall changes in interest rates. This risk increases as the expected holding period of an investment increases.

#### Systematic Risk

Systematic risk is the risk inherent to an entire market or market segment. It is also called market risk or undiversifiable risk and includes such things as recessions, wars, political instability and other factors that affect a broad range of investments. Systematic risk cannot be mitigated by diversification.

#### Unsystematic Risk

Unsystematic risk is the risk inherent in and unique to a specific entity. Investors can mitigate this risk through investment diversification. There are four primary sources of unsystematic risk:

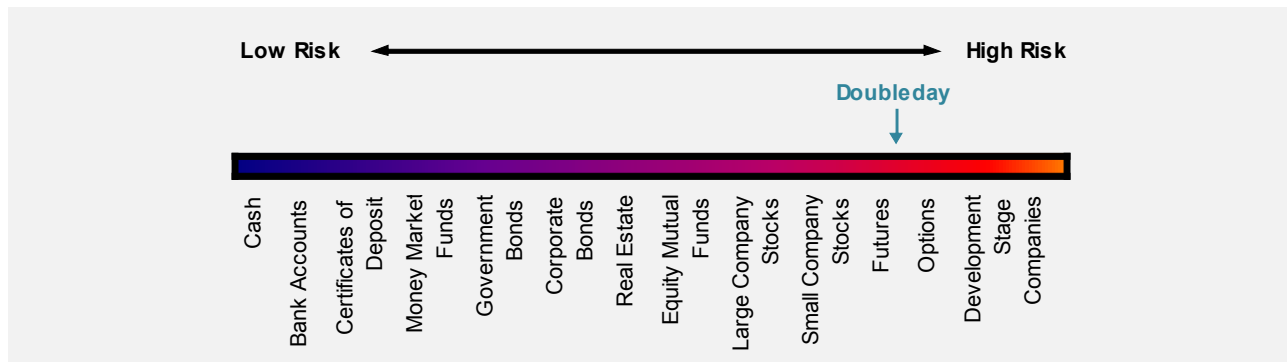
- ◆ the size of the subject entity;
- ◆ the macroenvironment;
- ◆ the industry; and
- ◆ the company specific risks.

### Exhibit 2: Unsystematic Risks

Factor	Risk Impact
<b>Size</b>	↑
<b>Macroenvironment</b>	
Economy	↑
Innovation	○
Lifestyles and Values	↓
Demographics	↓
Disasters	○
Politics	○
<b>Industry</b>	
Customers	↑
Suppliers	○
Competitors	↑
New Entrants	↑
Substitutes	↑
Compliments	↓
<b>Entity Specific Risks</b>	
Strategy	↓
People	↑
Architecture	↑
Routines	○
Culture	○
Other	○
<b>Financial Analysis</b>	↑

↑ indicates the factor poses an increased level of risk to an investment in the entity.  
 ○ indicates the factor poses a neutral level of risk to an investment in the entity.  
 ↓ indicates the factor poses a decreased level of risk to an investment in the entity.

### Exhibit 3: Risk Spectrum



### Identified Risk of the Subject Entity

The maturity risk and systematic risk associated with an investment in Doubleday are inherent in the data used to develop an appropriate cost of capital (discount rate and/or valuation multiple), as described later in this report. We have listed various unsystematic risk factors, what we believe their impact would be on the perceived risks of an investment in Doubleday, (see Exhibit 2), and summarized them as follows:

**Size.** Investments in small companies are typically considered more risky and carry a greater expected rate of return. This has been demonstrated by several studies. Doubleday is a small entity, and an investment in Doubleday is therefore considered more risky than alternative investments in large corporations.

**Macroenvironment.** We have identified an increase in risk associated with macroenvironmental factors, especially current economic trends.

Current economic conditions are marked by slow economic growth and high, persistent unemployment rates following the worst economic downturn since the Great Depression. Though retail sales are expected to increase by approximately 3 percent in 2011 due to increased consumer confidence, rising energy and commodity prices and high unemployment loom overhead.

When unemployment is high, people have less disposable income to spend on things like memorabilia. Doubleday is much less likely to gain and/or retain subscribers if those collectors and dealers aren't making sales. To see a decrease in unemployment rates, the economy needs to grow. Yet, if energy and commodity prices continue to

increase, economic growth may be hindered enough to prevent unemployment from shrinking.

On the other hand, major memorabilia retailers expect to benefit from favorable demographics and lifestyle changes in 2011. It is currently estimated that approximately 35 percent of U.S. households participate in collection of some sort of memorabilia. Furthermore, there is an increasing focus in the U.S. on activities that can boost household income. While the sale of baseball memorabilia does not affect Doubleday, Inc. directly, it may increase its pool of potential members and thus mitigate some of its risk.

It cannot be denied that the United States economy is showing some signs of recovery. However, energy and commodity prices, unemployment rates, and a few other market forces are still causes for concern. We believe that the current macroenvironment increases the risk of an investment in Doubleday overall.

**Industry.** We believe that the industry in which Doubleday, Inc. operates is inherently risky. Low barriers to entry allow for a lot of competition. Also, there are many substitutes for this service which can contribute to high customer attrition.

It is much less difficult and capital-intensive to develop and operate a website than it is to start many other types of businesses. This means that there are low barriers to entry in this industry. This has also allowed many competitors to enter the market. SMO.com (Sports Memorabilia Online) is currently the largest competitor and has maintained that status since its inception. Doubleday, Inc. was the second major competitor to enter the marketplace and though its annual growth rate of unique visitors exceeds that of

SMO.com, it still only had approximately 9 percent of SMO.com's internet traffic in January 2011. There are also about 30 other similar sites that are much smaller than Doubleday.

With so many competitors offering services similar to Doubleday's, customers have a lot of choice. Furthermore, it is extremely easy for customers to terminate and switch service providers in this industry. This is especially true for Doubleday since it does not require members to contractually commit to a set length of service. Thus, there is great potential for customer attrition. These two factors increase the risk of an investment in the Company.

The only factor that may reduce industry-related risk for the Company is the success of compliments such as increases in the number of home based businesses, the success of well known sports teams, mobile media devices, and internet service providers. An increase home based businesses could translate into more members. Popularity gains with regard to obtaining mobile media devices and internet service means that more people will have access to Doubleday's services more often.

It appears that there are far more factors related to this industry that increase risk rather than reduce it.

**Entity Specific Risks.** Doubleday appears to have a very good employee base, effective operational routines, and a sound business strategy. However, we have identified an overall increase in risk due to entity-specific factors.

Though the Company has good people that mitigate its risk, there is currently a high potential to lose those people to better employment offers. This is mainly due to an increase in demand for quality people in the technology sector. The Company is improving its operational routines to be more efficient and effective in serving its members and improving its operations. Yet, there is room for improvement with regard to administrative routines such as accounting and record keeping.

Doubleday's business strategy seems to be working well. Because the site has less traffic than the industry leader, it has employed a model that allows users to use the site for free, thus increasing its appeal. It has also developed more features than Etsy.com which increases its perceived value to its users. This strategy has resulted in increased site traffic growth rates.

The architecture of the Company increases its risk, as it has high "technological debt." In this instance, "technological debt" means that the company took necessary shortcuts to enter the marketplace quickly but now must go back and improve the quality of the underlying programming. This causes both a bottleneck to growth and increased costs. The bottleneck to growth comes from the current programming lacking scalability and the increase in cost due to the need to spend time designing and implementing the needed improvements.

All in all, Doubleday, Inc.'s entity-specific factors result in greater risk to an investment in the business operations.

**Financial Analysis.** In order to purchase Doubleday out of bankruptcy, the new owners will be required to make monthly payments to certain creditors according to a court approved schedule over approximately five years. Further, management expects significant future revenue growth. If the revenue growth does not occur, there is a possibility that Doubleday will be unable to make the required monthly payment obligations. This increases the risk to an investment in Doubleday.

### **Risk Spectrum**

As the risk of an investment increases, the potential return also increases. This expected return is intended to compensate the investor for taking on additional risk as increased risk also brings with it a greater potential for incurring a loss. As a result, low-risk investments, like U.S. Government bonds, cash and cash equivalents, have low rates of return. High-risk investments, such as options, futures contracts, and speculative start-up enterprises, have high rates of return. In this sense, risk can be thought of as a spectrum ranging from low risk with corresponding low rates of return, to high risk with corresponding high rates of return. Based on previous assessments of risk related to Doubleday, we believe an investment in the Company is appropriately considered to be more risky than an investment in small publicly traded stocks, but further, Doubleday is not publicly traded, which increases investors' perception or risk (see Exhibit 3).

The inverse relationship between expected rates of return and value is connected to risk. As the risk (and expected rate of return) of an investment increases, the value of an investment decreases. Put another way, the value of a risky cash flow stream is less valuable than a less risky equivalent cash flow stream.

## Exhibit 4: Comparative Rates of Return

Rate	Asset Class
0.07% <sup>1</sup>	U.S. Treasury constant maturities - 1 month
4.21% <sup>1</sup>	U.S. Treasury constant maturities - 20 year
5.10% <sup>1</sup>	Corporate bonds - Moody's Aaa
6.01% <sup>1</sup>	Corporate bonds - Moody's Baa
3.25% <sup>1</sup>	Bank prime loan rate
14.22% <sup>2</sup>	20-year historical returns for real estate investment trusts
10.90% <sup>3</sup>	Large publicly traded company stocks
13.71% <sup>3</sup>	Mid-cap publicly traded company stocks
18.23% <sup>3</sup>	Micro-cap publicly traded company stocks
20%-35% <sup>4</sup>	Venture capital expected returns for bridge financing
30%-50% <sup>4</sup>	Venture capital expected returns for late stage development
40%-60% <sup>4</sup>	Venture capital expected returns for early stage development
50%-70% <sup>4</sup>	Venture capital expected returns for seed-stage financing

<sup>1</sup> Federal Reserve Statistical Release, "H.15(519) Selected Interest Rates," (Board of Governors of the Federal Reserve System, April 2, 2011).

<sup>2</sup> Average annual total return on Real Estate Investment Trusts over the 20-year period ended 2010. Computed from data published by the National Association of Real Estate Investment Trusts.

<sup>3</sup> 2010 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook, Table 7-5: Size-Decile Portfolios of the NYSA/AMEX/NASDAQ Long-Term Returns in Excess of CAPM, 1926-2009, (Morningstar, Inc.), p.90.

<sup>4</sup> Scherlis, Daniel R. and William A. Sahlman, "A Method for Valuing High-Risk, Long Term, Investments: The Venture Capital Method," Harvard Business School Teaching Note 9-288-006, Boston: Harvard Business School Publishing, 1989.

### Quantifying Risks

For valuation purposes, these risks need to be quantified. To do so, we looked to the rates of return expected on various types of investments ranging from low-risk, short-term government securities to venture capital financing (see Exhibit 4). In this context an investment in Doubleday, being more risky than small publicly traded entities,

suggests that an appropriate rate of return (discount rate) for Doubleday should be above those applicable to small publicly traded entities, and similar to returns applicable to late stage venture capital investments since it has not yet achieved the level of growth the venture capital investors look for in technology companies.

# Valuation Approaches

*We have considered using each of the valuation approaches in our analysis, but selected the income approach as being the best for the current circumstances.*

## Valuation Approach Overview

The various approaches to valuing an ownership interest in a business or intangible asset are based in the economic principles of “future benefits” and “substitution.”

The principle of future benefits specifies that an investor will not pay more than today’s value of economic benefits to be received in the future. The principle of substitution specifies that an investor will not pay more for an asset than the cost of another asset that performs the same function. These principles are applied in the various approaches to value, namely the income approach, the market approach and the asset approach. Each of these approaches have corresponding methods that can be used to develop a value.

Our selection of an appropriate approach and underlying method of valuation depends on the facts and circumstances of the case. The items that will impact the selection of the most appropriate method of valuation may include, but are not limited to, the following:

- ◆ The purpose of the valuation;
- ◆ The premise of value (i.e., liquidation versus going concern);
- ◆ The availability of adequate information on publicly traded comparable companies or transactions involving comparable private companies;
- ◆ The relative stability or irregularity of historical earnings; and,
- ◆ Growth expectations for the future.

We considered using valuation methods that relate to the income, asset, and market approaches as follows:

## Asset Approach

The asset approach (or cost approach) is based on the economic principle of substitution. In terms of an investment, the principle of substitution is that an investor will not pay more for an investment than the cost to purchase or create the same investment.

The underlying concept of the asset approach is simple. The value of the investment is the sum of its assets less its liabilities. When properly applied, asset approach methods can be highly complex. This approach not only considers physical assets, but also intangible assets such as trademarks, patents, customer relationships, and reputation, to name a few. This approach also considers actual liabilities as well as contingent liabilities that may exist. The asset approach recognizes that all economic value can be associated with the productive assets of the business, tangible and intangible.

As part of the purchase of Doubleday out of bankruptcy, the new business entity will not only acquire the assets related to Doubleday, but will also be required to make payments to certain creditors based on a court approved payment schedule. Because Doubleday is an ongoing profitable business, we believe it has some intangible value that is not recorded on its books and records. Further, it is a business that does not require much investment in fixed assets. As such, we have not used the asset approach to develop the fair market value of Doubleday

## Income Approach

The income approach is based on the economic principle of future benefits. It uses the concept of the “time value of money” to determine value. The time value of money concept is that an amount of money available now is worth more than the same amount in the future. The reason has to do with uncertainty and investment potential.

The receipt of an amount of money in the future is not completely certain. Events and circumstances may prevent the amount from being paid. Investors seek to be

compensated for such risks. An amount available today can be invested and earn interest. The investor will have a greater amount of money in the future because of the interest earned. The sooner the money is available for investing, the more interest it can earn. Therefore, an amount of money is more valuable now than the same amount received in the future.

Under the income approach, value is computed as today's value (present value) of expected future economic benefits to be received. The computation of the present value considers the risks associated with the investment. The risks are expressed in the rate of return that the investors seeks to achieve. This rate of return is often called the "cost of capital."

The methods used in the income approach primarily include the discounted future cash flows (DCF) method and the capitalized earnings method. We used the DCF method in our determination of the fair market value. Recent growth in the operations of Doubleday suggests that future operating results will be significantly different that current operations. Further, it level of debt is expected to change as well. Because of this we have used a DCF methodology, more specifically, the APV method, relying on estimates of future operating results to develop and estimate of value.

### **Market Approach**

The market approach is based on the economic principle of substitution, but can also incorporate some elements of the principle of future benefits. It uses the concept of "efficient markets." The efficient market hypothesis is that the market price of an investment will reflect and incorporate all relevant information related to the assets. It means that the trading price will always be equivalent to the fair market value of the investment.

This approach compares the subject entity to transactions involving reasonably similar companies whose values are known. The comparisons are used to develop a cost of capital based on the known values of the comparable companies. The cost of capital is usually expressed as a valuation multiple. The multiple is then applied to an appropriate measure of economic benefit to arrive at a value.

The methods used in the market approach include actual transactions involving the subject investment, the private company transaction method and the publicly traded guideline company method. Our inquiries, observations and research revealed that there have not been any arms length transactions involving equity ownership interests in Doubleday. We were unable to find any transactions of privately held entities similar to Doubleday, and no publicly traded companies sufficiently similar to Doubleday. As such, we have not used the market approach to develop an estimate of value.

# Income Approach

*We used the adjusted present value method to estimate the fair market value of the Subject Interest. We used this method because future long-term growth is expected to vary significantly from near-term rates of growth, and current debt levels are expected to vary significantly from long-term levels.*

We used a derivation of the discounted cash flows method, called the adjusted present value (APV) method, to estimate the fair value of Doubleday. The APV method is most useful when a company’s interest bearing debt is expected to change in the future from current levels. Under the APV method, a company’s debt-free equity value is determined using the discounted cash flows methodology. After that the future value of tax benefits of interest on debt is determined. This is commonly called the income tax shield.

### Discounted Future Cash Flow Methods

Discounted future cash flow methods involve projecting estimated future income streams and discounting those income streams by an appropriate discount rate to arrive at today’s value of the estimated future earnings. The future income streams are usually estimated on an annual basis and can include either net income or cash flows. Earnings are forecasted for a number of future periods until such earnings reach a stable level of growth. Once the stable growth is achieved, a “residual value” is determined. The residual value is the value of all future income streams after the point in time when a stable rate of growth has been estimated.

The appropriate discount rate is the rate of return an investor would expect to earn based on the risks of investing in a given entity. The sum of present values of projected income streams and the terminal value results in a value estimate for the entity itself (see Exhibit 5).

If an entity’s earnings or cash flows are growing at a constant rate into perpetuity, the discounted cash flow formula is mathematically equivalent to the capitalization method. However, when an entity’s near-term rate of growth is different from the long-term trend, or when near-term factors are influencing results (in a way that can be reasonably predicted), a discounted future earnings

### Exhibit 5: Formula for DCF Method

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \dots + \frac{E_n}{(1+k)^n} + \frac{E_n(1+g)}{(1+k)^n - (k-g)}$$

Where:

- $E_1 \dots E_n$  = Expected amounts of economic income in each period  $E_1$  through  $E_n$
- $k$  = Discount Rate
- $n$  = Number of periods in the discrete projection period
- $g$  = Annually compounded growth rate in perpetuity for the prospective economic income, beyond the discrete projection period

method can capture the valuation impacts of such differences more reliably than a capitalization method.

We have used discounted cash flow methodology as part of the APV method as follows:

### Estimate of Future Cash Flows – Discounted Future Cash Flows Method

The following sections detail the estimated future cash flows used in the discounted future cash flows method.

#### Estimated Future Cash Flow to Equity

Cash flows can be evaluated on a "cash flow to equity" basis or a "cash flow to invested capital" basis. Cash flow to equity considers the cash flow that is available to the equity owners. Cash flow to invested capital includes the cash paid to debt holders (interest expense) as well as cash available to equity owners. The APV method called for a debt-free cash flow to equity with debt considered separately.

## Exhibit 6: Future Pre-Tax Earnings

		Year 1	Year 2	Year 3	Year 4	Year 5	Residual
Revenue	\$ 735,000	\$ 1,213,000	\$ 1,577,000	\$ 1,814,000	\$ 1,941,000	\$ 1,999,000	\$ 2,059,000
Growth		65%	30%	15%	7%	3%	3%
Payroll		800,000	1,039,000	1,186,000	1,099,000	1,120,000	1,165,000
Contract employees		150,000	155,000	160,000	165,000	170,000	175,000
Marketing		24,000	32,000	36,000	97,000	100,000	82,000
Variable administrative	9.0%	109,000	142,000	163,000	175,000	180,000	185,000
Fixed administrative		110,000	113,300	117,000	121,000	125,000	129,000
Research and development		-	-	30,000	132,000	134,000	140,000
Depreciation		6,000	20,000	35,000	47,000	58,000	66,000
Total operating expenses		1,199,000	1,501,300	1,727,000	1,836,000	1,887,000	1,942,000
Operating Earnings		14,000	75,700	87,000	105,000	112,000	117,000
Interest Expense		(4,000)	(3,000)	(2,000)	(1,000)	-	-
<b>Forecasted Earnings Before Taxes</b>		<b>\$ 10,000</b>	<b>\$ 72,700</b>	<b>\$ 85,000</b>	<b>\$ 104,000</b>	<b>\$ 112,000</b>	<b>\$ 117,000</b>

### Forecast Assumptions

In order to forecast future cash flows, we must first forecast future earnings and future account balances. These forecasts require many assumptions, which are derived from Doubleday's management. We have listed and detailed them as follows:

**Base Period.** The base period from which these forecasts are built is the most recent trailing twelve month period ended January 31, 2011, representing the most recent period for which information is available, and which is presented in Appendix B. While the base period is January 31, our Valuation Date is March 31, 2011. We do not believe there would be a material difference in our conclusion if actual financial information was available for March 31, 2011.

**Revenues.** Based on recent revenue growth, management believes revenues will increase by approximately 65 percent in the first forecasted period. Based on the concept of mean reversion, we believe revenue growth will decline at a decreasing rate, settling at the approximate long-term rate of growth of 3 percent over five years.

**Payroll.** Doubleday currently has 12 employees and management expects the number of employees to

increase as the Company grows. Management believes that the average number of employees will grow by 2 employees annually will support the forecasted revenue growth until the residual period, when employee growth declines to one employee.

Management also estimates that the average salary per employee is currently \$50,000 and will grow by the rate of inflation until year 4, when fewer web developers and more customer service employees will be needed, thus reducing the average salary per employee to approximately \$45,000, and down to \$42,000 in year 5.

In addition to this, owners' salaries are estimate at \$100,000 in year one with annual increases for inflation, estimated at the long-term growth rate.

**Contract Employees.** Management estimates that amounts paid to contract employees will be \$150,000 in year 1 with annual increases for inflation.

**Marketing Expenses.** Management believes marketing expenses will be approximately 2 percent of revenue in years one through three, increasing to approximately 5 percent in years four and five, and stabilizing at 4 percent of revenue in the residual period.

## Exhibit 7: Future Account Balances

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Residual
Cash	\$ 49,000	\$ 51,000	\$ 81,700	\$ 137,700	\$ 212,700	\$ 311,700	\$ 427,700
Total Current Assets	49,000	51,000	81,700	137,700	212,700	311,700	427,700
Fixed Assets	-	50,000	115,000	174,000	245,000	320,000	390,000
Accumulated Depreciation	-	(6,000)	(26,000)	(61,000)	(108,000)	(166,000)	(232,000)
Net Fixed Assets	-	44,000	89,000	113,000	137,000	154,000	158,000
Other Assets	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total Other Assets	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Total Assets</b>	<b>\$ 51,000</b>	<b>\$ 97,000</b>	<b>\$ 172,700</b>	<b>\$ 252,700</b>	<b>\$ 351,700</b>	<b>\$ 467,700</b>	<b>\$ 587,700</b>
Accounts Payable	\$ 8,000	\$ 11,000	\$ 15,000	\$ 19,000	\$ 34,000	\$ 35,000	\$ 34,000
Accrued Expenses	13,000	18,000	23,000	26,000	24,000	25,000	26,000
Prepaid Revenue	-	51,000	66,000	76,000	81,000	83,000	86,000
Total Current Liabilities	21,000	80,000	104,000	121,000	139,000	143,000	146,000
Notes Payable	89,000	66,000	45,000	23,000	-	-	-
Total Notes Payable	89,000	66,000	45,000	23,000	-	-	-
Total Liabilities	110,000	146,000	149,000	144,000	139,000	143,000	146,000
Owners Equity	(59,000)	(49,000)	23,700	108,700	212,700	324,700	441,700
<b>Total Liab. and Equity</b>	<b>\$ 51,000</b>	<b>\$ 97,000</b>	<b>\$ 172,700</b>	<b>\$ 252,700</b>	<b>\$ 351,700</b>	<b>\$ 467,700</b>	<b>\$ 587,700</b>

**Variable Administrative Costs.** Management estimates that variable administrative costs will be approximately 9 percent of revenue in each of the forecast periods.

**Fixed Administrative Costs.** Management believe fixed administrative costs will be approximately \$110,000 in the first forecasted period with annual increases for inflation.

**Research and Development.** Management expects research and development costs, being primarily discretionary, will be incurred based on the availability of cash and earnings to pay such costs. As such, they expect no research and development costs until year 3, when forecasted earnings and cash flows would allow for research and development costs of 2.5 percent of revenues. This percentage is expected to grow to 12 percent, 16 percent and 20 percent, respectively, in years four and five, and the residual period.

**Depreciation.** Depreciation expense is based on a 3-year useful life for computer servers and a 5-year useful life for

all other fixed asset. It is also based on the capital expenditures presented in the forecasted balance sheets. A detailed computation of the depreciation expense is presented in the appendices to this report.

**Interest Expense.** Interest expense is imputed based on the payment obligation that Doubleday is expected to take on as part of the bankruptcy proceedings. A detailed amortization schedule is presented in the appendices to this report.

**Forecasted Pre-Tax Earnings.** Based on these assumptions we computed the future pre-tax earnings (see Exhibit 6).

**Accounts Receivable.** Because Doubleday charges its customers at the beginning of their respective services periods, it does not have any accounts receivable.

**Inventory.** Doubleday's customers sell physical products through its website, but Doubleday does not take

possession nor title to those products. As such, it does not have any inventory.

**Fixed Assets.** Management believes purchases of fixed assets will be driven by the need for computer servers, the number of employees and other factors. Doubleday currently has 12 servers. That number is expected to grow to 19 over the forecast period, with replacements occurring every three years.

Management expects capital expenditures of \$3,000 will be needed for each new employee with \$1,000 annually for existing employees. Other capital expenditures were estimated at \$10,000 in the first forecast period, \$20,000 in the second forecast period, and annual increase at the rate of inflation thereafter.

**Accumulated Depreciation.** Accumulated depreciation is forecasted based on the cumulative sum of estimated future depreciation expense. A detailed computation of the fixed assets, including forecasted capital expenditures, depreciation expense and accumulated depreciation is presented in the appendices to this report.

**Other Assets.** Other assets represent the deposit on the office space leased by Doubleday.

**Accounts Payable.** Management estimated future accounts payable balances as one month of annual marketing expenses, variable general expense, and R&D expenses.

**Accrued Expenses.** Management estimated future accrued expenses balance as one week of annual payroll expenses.

**Prepaid Revenue.** Because Doubleday receives payment from customers at the beginning of their monthly service period, they have a liability related to prepaid revenue. They estimated the prepaid revenue balance as one-half month of annual revenue.

**Notes Payable.** As previously presented, Doubleday is expected to take on the payment obligation to make payments to the creditors of the previous owners. We have treated these liabilities as a single note payable. The total amount of liabilities subject to the bankruptcy proceedings is approximately \$300,000. The estimated fair market value of these liabilities has been computed based on

scheduled payments approved by the bankruptcy court of \$5,000 per month.

We computed the fair market value of such payments using a discount rate similar to rates allowed by the IRS for imputing interest. The details are presented in an amortization schedule in the appendices to this report.

**Forecasted Balance Sheet Items.** Based on these assumptions and the previous forecasted earnings, we computed the forecasted account balances (see Exhibit 7).

**Forecasted Cash Flows.** From the forecasted pre-tax earnings and the forecasted account balances we computed the forecasted cash flows.

To estimate the future cash flows, we began with the forecasted pre-tax earnings. We subtracted normalized income tax to arrive at an after tax earnings to equity. We added forecasted depreciation expense to arrive at forecasted gross cash flow to equity. We then subtracted the forecasted incremental working capital needs and the forecasted capital expenditure needs. Because we are computing future cash flows to equity on a debt-free basis, we did not add the changes in borrowings, which is normally done when computing cash flows to equity, but is not required when using the APV method (see Exhibit 8).

**Residual Value.** After earnings have been forecasted out to a point in time where future growth is expected to continue at a relatively constant rate, a capitalization method can be used to determine the value of cash flows from that point forward. This part of the forecast is called the residual period. We have computed the residual value by dividing the residual period cash flows by the capitalization rate. This capitalization rate is explained in further detail later in this chapter.

**Income Taxes.** The new entity that will be formed to acquire the assets of Doubleday is expected to be a pass-through entity for tax purposes. This means that it will not pay income taxes directly, but that the owners will be required to pay taxes on their respective pro-rata shares of the business earnings.

Eventhough pass-through entities do not pay taxes directly, well run pass-through entities pay distributions to the owners to provide them with the cash needed to pay the taxes to accrue to them. This being the case, pass-through entities have an indirect cash obligation to pay income

## Exhibit 8: Future Cash Flows to Equity

	Year 1	Year 2	Year 3	Year 4	Year 5	Residual
Earnings Before Taxes <sup>1</sup>	\$ 10,000	\$ 72,700	\$ 85,000	\$ 104,000	\$ 112,000	\$ 117,000
Less Income Taxes <sup>2</sup>	(3,900)	(28,353)	(33,150)	(40,560)	(43,680)	(45,630)
After Tax Earnings to Invested Capital	6,100	44,347	51,850	63,440	68,320	71,370
Add Depreciation and Amortization <sup>1</sup>	6,000	20,000	35,000	47,000	58,000	66,000
Less Incremental Working Capital Needs <sup>3</sup>	59,000	24,000	17,000	18,000	4,000	3,000
Less Ongoing Capital Expenditures <sup>4</sup>	(50,000)	(65,000)	(59,000)	(71,000)	(75,000)	(70,000)
<b>Debt Free Cash Flows to Equity</b>	<b>\$ 21,100</b>	<b>\$ 23,347</b>	<b>\$ 44,850</b>	<b>\$ 57,440</b>	<b>\$ 55,320</b>	<b>\$ 70,370</b>
					Divided by the Capitalization Rate <sup>5</sup>	22.00%
					<b>Residual Period Value</b>	<b>\$ 319,864</b>

<sup>1</sup> From Exhibit 6.  
<sup>2</sup> Based on a combined Federal and State rate of 39%.  
<sup>3</sup> The change in working capital exclusive of the cash balance from Exhibit 7.  
<sup>4</sup> From Appendix B.  
<sup>5</sup> From Exhibit 10.

taxes. Because of this we have accounted for income taxes in our analysis.

In order to determine the future cash flows we had to estimate future income taxes. We estimated income taxes based on a combined federal and state income tax rate. We first estimated the state income taxes because state income taxes are deductible for federal income tax purposes. We used a state income tax rate of 7.1 percent, which is the income tax rate applicable to corporations in the State of New York.

We then estimated the federal income taxes by subtracting the estimated state income taxes from the adjusted EBIT, and multiplying the result by 34 percent. Federal income tax rates are graduated for different levels of earnings. As taxable earnings increase, the tax rates general increase. The federal income tax rate we used represents the effective federal income tax rate for corporations with taxable earnings similar to the Company.

This resulted in a combined federal and state income tax rate of 39 percent.

## Estimated Cost of Capital

We used the Build-up Pricing Model, a derivation of the Capital Asset Pricing Model (CAPM), to determine an appropriate cost of capital (required rate of return). The build-up method is based on the fact that investors expect to earn a greater return on an investment that involves a greater risk. Under the build-up method, an appropriate rate of return is "built up" using empirical data. It begins with a risk-free rate of return. This risk free rate of return represents the "maturity risk" discussed previously in the Risk Profile section of this report.

An additional amount (premium) is added to the risk-free rate to account for additional risk investing in shares of stock of large corporations. This is called the equity risk premium. Another premium is added for the additional risk of investing in shares of small corporations. This is called the size premium. Often the equity risk and size premiums are combined into a single premium. The equity risk premium represents the "systematic risk" discussed previously in the Risk Profile section of this report. The size adjustment is a component of the "unsystematic risk" discussed previously.

## Exhibit 9: Combined Equity Risk Premium and Size Adjustment

Measure of Size	Doubleday	Logarithm <sup>1</sup>	Slope	Constant	Indicated Premium <sup>2</sup>
Total Assets	\$ 51,000	(1.292430)	(0.02230)	0.15804	18.69%
Sales	\$ 735,000	(0.133713)	(0.01965)	0.15218	15.48%
Number of Employees	12	1.079181	(0.01933)	0.16048	13.96%
				<b>Average</b>	<b>16.04%</b>
				<b>Median</b>	<b>15.48%</b>
				<b>Selected</b>	<b>15.50%</b>

<sup>1</sup> The Company's amounts were expressed in millions (1,000,000 = 1.0) for computation of the logarithm, with the exception of the number of employees. This was done in order to be consistent with the formulae provided by the D&P Report.

<sup>2</sup> Computed by multiplying the logarithm by the slope and subtracting the result from the constant. The result is an indicated premium over the risk-less rate.

## Exhibit 10: Discount and Capitalization Rates

Risk-less Rate	4.21%
Size Adjusted Equity Risk Premium <sup>1</sup>	15.50%
Add Company Specific Risk Premium	<u>5.00%</u>
Equals the Cost of Equity	<u>24.71%</u>
<b>Rounded</b>	<b>25.00%</b>
Less Long-Term Growth	<u>-3.00%</u>
<b>Capitalization Rate</b>	<b><u>22.00%</u></b>

<sup>1</sup> From Exhibit 9.

Finally a premium (or discount) is taken to account for risk (or lack thereof) specific to the entity being valued. This entity specific risk represents the remaining components of unsystematic risk. The result is a "discount rate," representing the annual investor-required rate of return, a measure of the cost of equity.

### Risk-Free Rate

Rates for U.S. Treasury bills, notes, and bonds are often considered free of risk of default. According to the *Federal Reserve Statistical Release* dated April 2, 2011, the yield on actively traded long-term (20-year) U.S. Government Treasury Securities on March 31, 2011 was 4.21 percent.

## Combined Equity Risk Premium and Size Adjustment

We looked to the *Duff & Phelps, LLC Risk Premium report* (D&P Report), published by Duff & Phelps, LLC and distributed by Morningstar, Inc., to quantify the combined general equity risk and size premium. The D&P Report provides investment return data beginning in 1963 on publicly traded companies ranked by size and includes those companies that appear in both the Center for Research in Security Prices database and the Standard and Poor's *Compustat* database. The D&P Report ranks the companies into 25 groups based on several different measures of size. The D&P report also provides statistical formulae necessary to extrapolate a combined equity risk premium and size adjustment for the subject entity, based on the same measures of size.

Investors expect an additional return on investment in smaller companies. Based on the D&P data, over the 1963-2009 time frame, investors in a company with similar size characteristics as Doubleday could expect returns above U.S. Treasury Coupon Bonds similar to those computed in the accompanying table (see Exhibit 9).

### Specific Entity Risk Premium

It may be appropriate to include an additional risk premium, or subtract a risk discount, for risks specific to the entity being valued. We analyzed the entity specific risks as part of the unsystematic risk in the Risk Profile section of this report.

### Exhibit 11: Discounted Future Cash Flows

Future Period Ending	Future Cash Flows <sup>1</sup>	Mid-Period Convention	25.00% Discount Factor <sup>2</sup>	Present Value <sup>3</sup>
Year 1	\$ 21,100	0.5	0.894427	\$ 18,872
Year 2	23,347	1.5	0.715542	16,706
Year 3	44,850	2.5	0.572433	25,674
Year 4	57,440	3.5	0.457947	26,304
Year 5	55,320	4.5	0.366357	20,267
Residual Period	319,864	4.5	0.366357	117,184

**Indication of the Value of Equity** \$ 225,007

**Rounded** \$ 225,000

<sup>1</sup> From Exhibit 8.

<sup>2</sup> Equity discount rate from Exhibit 10.

<sup>3</sup> Future Cash Flows multiplied by the Discount Factor.

### Exhibit 12: Tax Benefit of Interest

Future Periods Ending	Interest Expense <sup>1</sup>	39.0% Tax Rate <sup>2</sup>	Mid-Period Convention Factor <sup>3</sup>	5.5% Discount Factor <sup>4</sup>	Present Value <sup>5</sup>
Year 1	\$ 4,000	\$ 1,560	0.375	0.980122	\$ 1,529
Year 2	3,000	1,170	1.375	0.929026	1,087
Year 3	2,000	780	2.375	0.880593	687
Year 4	1,000	390	3.375	0.834686	326
Year 5	-	-	4.375	0.791171	-

**Indication of the Value of Income Tax Savings** \$ 3,629

**Rounded** \$ 4,000

<sup>1</sup> From Exhibit 6.

<sup>2</sup> Interest expense multiplied by the tax rate.

<sup>3</sup> In this cash, estimated income tax payments for corporations are due April 15, June 15, September 15, and December 15 of each year. As such, these are the dates on which the Company would benefit from the tax deductible portions of the loans. The mid-point of these dates is August 1. From March 15 (the valuation date) to August 1 equated to a mid-period convention of 0.375. This factor is increased by one (1) for each subsequent year.

<sup>4</sup> Computed based on the formula presented previously in Exhibit 5.

<sup>5</sup> Total Income Tax Savings multiplied by the Discount Factor

### Exhibit 13: Benefit of Avoided Double Taxation

	Year 1	Year 2	Year 3	Year 4	Year 5	Residual
Adjusted Earnings <sup>1</sup>	\$ 10,000	\$ 72,700	\$ 85,000	\$ 104,000	\$ 112,000	\$ 117,000
Expected Distributions <sup>2</sup>	\$ 3,000	\$ 18,000	\$ 21,000	\$ 26,000	\$ 112,000	117,000
Less Personal Tax on Earnings <sup>3</sup>	(3,000)	(18,000)	(21,000)	(26,000)	(28,000)	(29,000)
Equivalent C-Corp. Dividend	-	-	-	-	84,000	88,000
Tax at the Dividend Tax Rate <sup>4</sup>	-	-	-	-	15,960	\$ 16,720
Divided by the Capitalization Rate <sup>5</sup>						22.00%
Capitalized Residual Amount						\$ 76,000
Mid-Period Convention	0.50	1.50	2.50	3.50	4.50	
Multiply by the Present Value Factors	0.894427	0.715542	0.572433	0.457947	0.366357	0.366357
Present Values	\$ -	\$ -	\$ -	\$ -	\$ 5,847	\$ 27,843
Sum of Present Values				Sum of Present Values		33,690
<b>Rounded</b>						<b>\$ 34,000</b>

<sup>1</sup> From Exhibit 6.  
<sup>2</sup> Years 1 through 4 estimated at the same amount as personal taxes. Year 5 and beyond estimated to be the same as earnings.  
<sup>3</sup> Computed using a 25% combined personal tax rate.  
<sup>4</sup> Computed at a combined dividend tax rate of 19%.  
<sup>5</sup> From Exhibit 10.

In this instance, we determined, based on the Risk Profile section of this report, that an additional entity specific risk premium was appropriate.

#### Equity Discount and Capitalization Rates

The risk-less rate and various premiums are summed to develop a discount rate applicable to equity, which represents the cost of the Company's equity. The capitalization rate is based on the discount rate, less a long-term sustainable annual growth rate of 3 percent. This long-term growth rate is closely tied to the overall macro-economic growth rate of the economy. In the near term, growth in earnings may continue to grow at a faster rate, but the concept of mean reversion indicates that growth, over a period of time, will revert to a rate similar to the macro-economic growth of the economy.

#### Indication of Value – Discounted Future Cash Flows

To compute a preliminary indication of the value of equity, we multiplied the previously determined estimate of future cash flows by the applicable discount factors to arrive at a present value for each forecasted period. We computed the discount factors based on the previously listed formula for the discounted cash flow method. We applied a mid-year convention in determining the discount factors because Doubleday cash flows are received evenly throughout the year.

We summed the present values to arrive at a preliminary indication of value. This represents the value of the Company's equity (see Exhibit 11).

#### Tax Savings on Debt

A company's financial obligations affect cash flows, and, by extension, value. Doubleday is expected to take on a

## Exhibit 14: Benefit of Basis Buildup

For the Future Periods Ending:	Year 1	Year 2	Year 3	Year 4	Year 5	Residual
Adjusted Earnings <sup>1</sup>	\$ 10,000	\$ 72,700	\$ 85,000	\$ 104,000	\$ 112,000	\$ 117,000
Less Expected Distributions <sup>1</sup>	(3,000)	(18,000)	(21,000)	(26,000)	(112,000)	(117,000)
Income in Excess of Expected Distributions	7,000	54,700	64,000	78,000	-	-
Estimated Capital Gains Tax Capitalization Rate <sup>2</sup>	1,330	10,393	12,160	14,820	-	\$ - 22.00%
Mid-Period Convention	0.50	1.50	2.50	3.50	4.50	\$ -
Multiply by the Present Value Factors	0.894427	0.715542	0.572433	0.457947	0.366357	0.366357
<b>Benefits of Retained Income</b>	<b>\$ 1,190</b>	<b>\$ 7,437</b>	<b>\$ 6,961</b>	<b>\$ 6,787</b>	<b>\$ -</b>	<b>\$ -</b>
Sum of Present Values				Sum of Present Values		<b>\$ 22,375</b>
<b>Rounded</b>						<b>\$ 22,000</b>

<sup>1</sup> From Exhibit 6.  
<sup>2</sup> From Exhibit 10.

significant liability in the form of payments to various creditors. We have assumed that interest will be imputed on the payments for tax purposes. The financial benefit of the imputed interest is derived from a company's ability to deduct interest expense from income reported to the IRS and other taxing authorities. The dollar amount of such benefits is the tax avoided.

We computed the cash flow benefit by multiplying expected future imputed interest by the income tax rate. The amount of interest expense used in this computation came from an amortization schedule detailing the expected future payments. We then computed the present values of these amounts based on a discount rate of approximately 5.5 percent, which is the highest Applicable Federal Rate (AFR) for long-term liabilities with monthly compounding. We believe a market rate of return is much higher, but that the IRS will only allow interest to be imputed at the applicable AFR.

We computed the discount factor using a mid-period convention. A mid-period convention is used to adjust the discount factor for the expected timing of cash flows. If cash flow is to be received one year in the future the mid-period convention is one (1). If cash flow is to be received

currently, the mid-period convention is zero (0). If cash flow is to be received in the middle of the year, the mid-period convention is 0.5 (see Exhibit 12).

### Benefits of Avoided Dividends

Owners of pass-through entities can receive distributions which are not subject to taxation as are dividends from C-corporations. This avoidance of double taxation can have value to the shareholders. Under the fair market value standard, we assume that a hypothetical buyer would be subject to taxation and would consider this factor. In this case, however, we assumed that Doubleday will not pay distributions, except in amounts needed to cover the income taxes that accrue to the owners, until payments on the debts assumed by Doubleday are finished. After that, we assumed that all earnings would be distributed to the owners (see Exhibit 13).

### Benefits of Basis Buildup

Owners of pass-through entities can benefit from earnings that are retained by the Company, which increases their tax basis in the entity, ultimately leading to reduced gains to the owners if the entity is sold. Because Doubleday does not expect to pay distributions while it still has obligations

to make payments to creditors, the Company is expected to retain much of its earnings during the first four forecast periods, thus building up the basis of its owners.

To compute the benefit of the expected build up in owners' basis, we computed the expected future income in excess

of distributions, by subtracting expected future distributions from expected future earnings. We multiplied the result by the capital gains tax rate to arrive at the expected future tax savings. We computed the present value of these savings to arrive at the total benefit of basis buildup (see Exhibit 14).

# Effect of Marketability on Value

*We applied an adjustment for lack of marketability of 10 percent in arriving at our estimate of the fair market value of the Subject Interest.*

An ownership interest that can be sold easily and converted to cash is more valuable than an equivalent interest that cannot be sold easily. The ability to sell is called marketability, and the ability to convert to cash is called liquidity.

Marketability is:

*The capability and ease of transfer or salability of an asset, business, business interest, or security.<sup>7</sup>*

Closely related to marketability is liquidity. Liquidity is:

*The ability to readily convert an asset, business, business ownership interest, or security to cash without significant loss of principal.<sup>8</sup>*

In this report we will consider marketability and liquidity in combination, and will refer to them in aggregate as “marketability,” unless otherwise indicated.

When an ownership interest lacks certain elements of marketability an adjustment from the preliminary indication of value may be applicable. This is commonly referred to as a discount for lack of marketability.

The standard for marketability is publicly traded stocks that enjoy significant trading volume on a major stock exchange. Owners of these stocks can know the value of their interests on a minute-by-minute basis, and can buy or sell these stocks at a moment's notice with the proceeds (net of fees) delivered in a matter of days.

A privately held business enterprise does not enjoy such marketability. Liquidating a position in a privately held entity is more costly and time consuming. Fees may need to be paid to a business broker and other marketing costs may be incurred. Time is required to find a buyer,

negotiate a price and draw up the necessary legal documents. In many cases the purchase price is paid over a period of years.

In some cases, more onerous restrictions are placed on the ownership of privately held enterprises through by-laws or shareholder agreements. These can include rights of first refusal, giving existing owners the right to purchase an ownership interest before it is sold to an outside party, and in some cases, an outright ban on the transferability. For these reasons, the marketability of a Subject Interest is important to estimating its value.

## **Factors Impacting Marketability**

The following is a discussion of several factors that can impact the marketability of an equity ownership interest in a business enterprise. Many of these factors were set forth in the Mandelbaum Tax Court decision. In 1995, the Tax Court issued a decision on the Estate of Mandelbaum (T.C. Memo 1995-255, June 12, 1995). The Mandelbaum court considered various studies on the lack of marketability as benchmarks and adjusted the benchmark discounts for several factors affecting marketability. We have presented each of the Mandelbaum factors, as well as other factors, in order to analyze the marketability of the Subject Interest.

**Financial Analysis.** We previously performed a financial statement analysis and found Doubleday's financial position is expected to be highly leveraged with large monthly payments to creditors. Further, the conclusion of this report is based on forecasted future results which may not occur. We considered these factors in the previously presented risk profile and in the development of an appropriate discount rate. To avoid double counting we have not considered this factor in determining an appropriate adjustment for lack of marketability.

7. International Glossary of Business Valuation Terms.

8. *ibid.*

**Company's Distribution Policy.** Doubleday has no established distribution policy. But, distributions are expected only in amounts necessary to cover taxes that accrue to owners as long as the obligation exists to make payments to the previous creditors. This factor would tend to diminish the marketability of the Subject Interest.

**Ability to Transfer Ownership.** The ability to transfer the Subject Interest is restricted by state and Federal securities laws. Further, any transfer must be approved by the bankruptcy court. Once out of bankruptcy, the new owners intend on restricting the transfer of ownership interests with a right of first refusal. However, the Subject Interest, being a 100 percent controlling interest, could effectuate a change to such a right of first refusal. This factor would tend to diminish the marketability of the Subject Interest because of the time and effort that would be required to overcome such restrictions.

**Amount of Control in Subject Interest.** Control reflects an owner's ability to direct a business enterprise in its daily operations. Control of a closely-held business enterprise represents an element of value that justifies a higher value for a controlling block of stock. A non-controlling owner's interest has less marketability given its inability to control. Benchmark studies reflect transactions of highly fractionalized non-controlling interests, unlike the Subject Interest which is a 100 percent controlling interest. This factor would tend to increase the marketability of the Subject Interest.

**Nature of the Company, its History, Position in the Industry and the Economic Outlook.** We considered these factors in the previously presented risk profile and in the development of an appropriate discount rate. To avoid double counting these items we have not considered these items in the development of an adjustment for lack of marketability.

**Company Management.** We considered this in the previously presented risk profile and in the development of an appropriate discount. To avoid double counting we have not considered this in the adjustment for lack of marketability.

**Holding Period for Ownership Interest.** An investment is less marketable if an investor must hold it for an extended period of time in order to reap a sufficient profit. Market risk increases and marketability decreases as the required

holding period increases. We have estimated the required holding period to be six months to one year.

Our discussions with business brokers indicate that it can take from six months to one-year to market and sell a 100 percent ownership interest in a privately held business. This factor would tend to decrease the marketability of the Subject Interest because it is not immediately marketable as a publicly traded stock.

**Costs Associated with Making a Public Offering.** An above average adjustment may be warranted if the buyer completely bears the cost of registering a private stock. The adjustment is lessened if the buyer can minimize his or her registration cost. Due to the relative size of the Company, IPO costs, relative to the Company's total expenses and overall profitability, would tend to be above average. This factor would tend to decrease the marketability of the Subject Interest.

**Listing Requirements.** Although not specifically mentioned in Mandlebaum, the requirement imposed by stock exchanges can impact marketability. Stock exchanges require minimum capitalization, corporate governance requirements, independent directors, audit committees and other requirements, of the entities listed on such exchanges. These requirements can serve to lower the risk of an investment in entities traded on stock exchanges. Doubleday has no such requirements. This factor would tend to decrease the marketability of the Subject Interest.

**Access to Information.** Although not specifically mentioned in Mandlebaum, investors in restricted stocks of SEC reporting companies can access vast amounts of information about the issuing entity through required SEC filing. An investor in Doubleday does not have the same level of access to information. This factor would tend to decrease the marketability of the Subject Interest.

Based on these facts, we believe the marketability of the Subject Interest is impaired relative to a highly marketable investment such as a publicly traded stock, and that an disinterested, third party investor would require a discount to the purchase price to be enticed to invest in the Subject Interest.

### ***Quantifying Adjustments for Marketability***

Diverse methods exist to estimate and quantify the impact of marketability on the value of a privately held business

## Exhibit 15: TVA Study Benchmark

	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
<b>Revenue (000)</b>	\$0 to \$497	\$498 to \$11,989	\$11,990 to \$74,654	\$74,655 and above
Median Discount	24.40%	12.61%	15.78%	11.18%
<b>Doubleday (000)</b>	-	<b>\$735</b>	-	-
<b>Total Assets (000)</b>	\$0 to \$14,468	\$14,469 to \$45,608	\$45,609 to \$142,652	\$142,653 and above
Median Discount	27.16%	14.11%	13.59%	8.23%
<b>Doubleday (000)</b>	<b>\$51</b>	-	-	-
<b>Book Value (000)</b>	\$0 to \$4,945	\$4,946 to \$18,515	\$18,516 to \$52,331	\$52,332 and above
Median Discount	20.24%	22.45%	10.89%	10.39%
<b>Doubleday (000)</b>	<b>-\$59</b>	-	-	-
<b>Debt Ratio</b>	below to 24%	25% to 49%	50% to 69%	70% and above
Median Discount	11.22%	12.21%	15.16%	19.97%
<b>Doubleday</b>	-	-	-	<b>216%</b>

enterprise. These methods include studies of empirical data, market return comparisons, and computational methods. We will discuss each of these and their applicability to Doubleday.

### Studies of Empirical Data

Studies of empirical data measuring adjustments for marketability include studies of restricted stocks and studies of pre-IPO transactions. Both of these methods of measuring adjustments for marketability have been presented.

#### Restricted Stock Method

The restricted stock approach estimates the discount for lack of marketability by measuring the difference between transactions of a company's restricted shares and their freely traded counterparts. "Restricted shares" (also called "letter stocks" or "restricted stock") are shares of publicly traded companies that are restricted from being sold on the open market. These securities generally possess the same attributes as their freely-traded counterparts, except that they have restrictions imposed by the Securities and Exchange Commission. By measuring the difference between what investors are willing to pay for the restricted shares and what they are willing to pay for the freely traded shares, the effect of marketability, or lack thereof, can be quantified.

9. Internal Revenue Service, Revenue Ruling 77-287.

Rev. Rul. 77-287 defines a restricted security as follows:

*... these particular securities cannot lawfully be distributed to the general public until a registration statement relating to the corporation underlying the securities has been filed, and has also become effective under the rules promulgated and enforced by the United States Securities and Exchange Commission (SEC) pursuant to the Federal securities laws.<sup>9</sup>*

Such restrictions are imposed by the SEC under Rule 144. Originally this rule required that owners of restricted stocks needed to hold the shares for two years before selling the shares to qualified investors. In 1990, the SEC issued Rule 144A, allowing qualified institutional investors the right to trade unregistered securities among themselves. On April 29, 1997, the SEC revised Rule 144, reducing the two-year holding period to one year.

Several studies provide additional statistical information that can be used to focus in on data that is more applicable to a specific entity. We have specifically looked to the Trugman Valuation Associates, Inc. (TVA) Restricted Stock Study to further refine the wide range found with the various restricted stock studies.

## Exhibit 16: Longstaff Study Summary

Holding Period	Price Volatility		
	10%	20%	30%
30 days	2.32%	4.69%	7.10%
60 days	3.30%	6.68%	10.15%
90 days	4.05%	8.23%	12.54%
180 days	5.77%	11.79%	18.08%
1 year	8.23%	16.98%	26.28%
2 years	11.79%	24.64%	38.61%
5 years	19.13%	40.98%	65.77%

*The above matrix presents adjustments for lack of marketability, varied by holding period and price volatility.*

**TVA Study.** The authors of the TVA study analyzed 80 transactions involving restricted shares of companies that also had publicly traded shares. The differential between the publicly traded price and the price of restricted shares ranged from a discount as high as 73.5 percent and a premium of 1.5 percent with a median of 14.4 percent and an average of 18.1 percent. This study stratified the discounts by nine different factors, five of which only related to companies with publicly traded shares (see Exhibit 15).

We have used this additional data as a benchmark in measuring an applicable adjustment for lack of marketability for the Subject Interest. Doubleday's revenue fell within the 2nd quartile of the study, while its total assets and book value fell within the 1st quartile and its debt ratio fell within the 2nd quartile. This suggests that an appropriate discount for the Subject Interest ranges from 12.21 percent to 27.16 percent assuming a one year holding period. We rounded these amounts to 12 percent and 27 percent.

### Computational Methods

We have also considered computational methods to estimate an applicable adjustment for lack of marketability.

#### Option Theory

A tactic used by investors to protect the value of an appreciated security is to purchase a put option. A put option gives the holder the right to sell a security at a predetermined price. If the market value of the security

declines, the put allows the investor to sell it at the higher option price, thus protecting the investor from the decline in value. The holder of a non-marketable security runs the risk of declining value while he/she is waiting for a marketability event. Based on option theory, he/she would require a discount to the price equal to the cost of purchasing a put option. The two primary methods for measuring adjustments for lack of marketability under option theory are the Longstaff study and the Black-Scholes model.

**Longstaff Study.** Francis A. Longstaff, professor of finance at UCLA, argues that a "lookback" option measures the upper bound of adjustments for lack of marketability. A lookback option is a nonexistent, hypothetical option that would allow the holder at the end of the option term, to retroactively look back in time and select the optimal date on which to exercise the option. This would provide the holder of the option the maximum benefit, and thus it is used to measure the upper limit to an adjustment for lack of marketability.

As with most option pricing models, the Longstaff Study measures the value of an option as a function of, among other things, the holding period and the price volatility of the underlying stock. The results of the Longstaff Study are presented in the accompanying table. This table presents a matrix of results from the Longstaff Study for different holding periods and different price volatilities (see Exhibit 16).

To apply this data, we estimated an applicable holding period and the price volatility for the Subject Interest, and look up on the accompanying chart the adjustment that corresponds to the holding period and price volatility. For example, the Longstaff Study tells us that a security with a 10 percent price volatility and a 30 day holding period would have an applicable adjustment for lack of marketability of 2.32 percent.

We estimated a holding period for the Subject Interest as being approximately six months to one year.

We looked to the price volatility of online auction and bidding sites as proxies for volatility. These had an average forecasted price volatility of 60 percent. Since the results of the Longstaff Study only presents price volatilities no higher than 30 percent, we used 30 percent as our estimate of the price volatility for the Subject Interest.

Using results of the Longstaff Study a price volatility of 30 percent and a holding period of one-year yields and adjustment for lack of marketability of 26 percent. Using the same volatility and a holding period of six months yields an adjustment for lack of marketability of 18 percent (see Exhibit 16).

**Black-Scholes Model.** Option models for European options provide an appropriate substitute for measuring an adjustment for lack of liquidity. European options can only be exercised (and therefore can only provide liquidity) on the expiration date and while the option holder waits for the expiration date, the price of the underlying stock can change to the benefit or detriment of the option holder. Likewise, the Subject Interest can only be liquidated after a buyer is found, and the value of the interest may change during that time. As previously indicated, the purchase of a put option protects the investor from this downside potential.

The Black-Scholes model estimates the value of a European option. It was developed by Fischer Black and Myron Scholes in 1973, and they received the Nobel Prize for economics for their work. The Black-Scholes model requires the input of several variables that are used to compute the value of a European style option. These inputs include, the risk free rate of return at the valuation date, the price of the underlying stock, the price volatility of the underlying stock, and the expiration date of the option.

We used the following inputs to the Black-Scholes model to estimate the appropriate adjustment for the lack of marketability as follows:

**Risk-Free Rate.** We used the yield for U.S. Government securities having a six-month maturity as representative of the risk free rate. This rate was 0.14 percent at March 31, 2011. We used this rate to correspond with the estimated holding period.

**Price of the Underlying Stock.** Because we are measuring the adjustment for lack of marketability as a percentage, we used 100 as the price of the underlying stock.

**Price Volatility.** We looked to the trading price of publicly traded online auction and bidding sites as surrogates for price volatility, as described previously. The average price volatility of the public companies was 60 percent which we used as an input to the Black-Scholes model.

## Exhibit 17: IPO Cost Formula

$$C=0.04305+m+0.03311\lambda-0.00593b-0.00014v$$

Where:

- C = The cost of an IPO expressed as a percentage.
- m = Variable related to the market capitalization of the business enterprise.
- $\lambda$  = Market Liquidity of the appropriate size category.
- b = Ownership percentage represented by the Subject Interest.
- v = Marketable value of the Subject Interest.

**Expiration Date.** We estimated this based on the expected holding period of six-months, as presented previously.

From these inputs, the Black-Scholes model computes an adjustment for lack of liquidity of 17 percent.

### Abbott Method

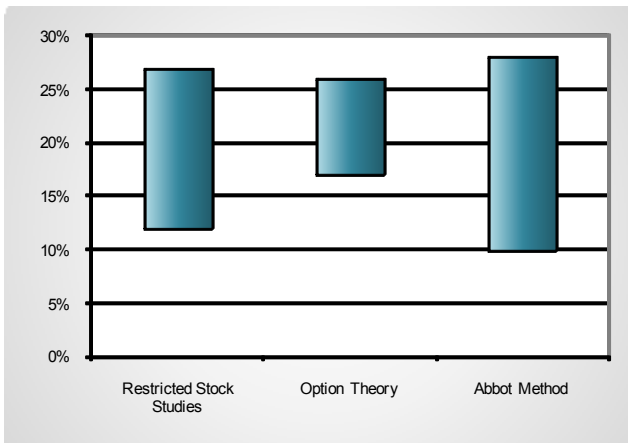
Ashok Abbott, Ph.D., of Business Valuation LLC has developed a method of measuring adjustments for the lack of marketability which separates the liquidity and marketability components of the adjustment.

**Lack of Marketability.** This method measures the adjustment for marketability as the cost of causing the investment to become liquid through an IPO. By analyzing 8,000 IPOs since 1993, Mr. Abbott has developed a formula that estimates this cost by looking at the size of an entity, the percentage of the entity to be offered in the IPO, and other factors (see Exhibit 17).

Based on Dr. Abbott's data, Doubleday's market capitalization variable is 5.663 percent. The other items in the formula practically offset each other based on the inputs as they relate to Doubleday. As a result, the estimated cost of performing an IPO based on the Abbott formula was approximately 10 percent (0.04305 plus 0.05663, rounded).

**Lack of Liquidity.** Dr. Abbott uses stock option valuation theory to estimate the lack of liquidity. Because a privately held stock cannot be liquidated in a timely manner, stock option valuation theory can measure the uncertainty of changes in the stock price during the period it would take to

### Exhibit 18: Summary of Methods for Lack of Marketability



sell the shares, thus, measuring the discount attributable to the lack of liquidity. Specifically, he uses the Longstaff Study to measure liquidity.

Based on Dr. Abbott's model, we added the estimated adjustment for lack of marketability of 10 percent and the estimated adjustment for lack of liquidity of 18 percent, to arrive at a combined adjustment for lack of marketability and liquidity of 28 percent.

### Summary

We have summarized the various methods of determining an adjustment for lack of marketability (see Exhibit 18). Each of the methods for quantifying an adjustment for lack

of marketability can be criticized for its deficiencies. The restricted stock studies, pre-IPO studies and the comparisons of market rates of returns are each very general in nature and do not take into considerations the specifics of the Subject Interest, and have a large degree of variation in their results. One method of overcoming these issues is to look at specific data points within the studies. We found the TMV study helpful in this regard. By using the more detailed data provided in this study, we were able to narrow the range of adjustments based on information specific to Doubleday.

The computational methods required inputs that were specific to the Subject Interest, and therefore we considered these methods as better than using a generalized average from a study. These methods also have criticisms and deficiencies.

The Abbott method relies, in part, on formulas derived from market data on publicly traded stocks, which reverts back to the criticism that they are too generalized. We believe this is partially offset by other inputs that are specific to the Subject Interest. Further, the valuation community has yet to arrive at a consensus as to the separation of the adjustment for lack of marketability into its liquidity and marketability components.

We believe that the low end of this range found with these various methods is most applicable, and as such, we applied an adjustment for lack of marketability of 10 percent.

# Conclusion

We have performed this valuation engagement based on the consideration of relevant factors. Our estimate (opinion) of the fair market value of Doubleday, Inc. as of March 31, 2011 on a controlling, non-marketable basis is:

**One Hundred Seventy-Six Thousand Dollars**  
**\$176,000**  
(see Exhibit 19)

The previous letter and this report are to be considered a single document, distributed only in their entirety, and intended and restricted only for use by the management of Doubleday, Inc., their attorneys and accountants for the previously stated purpose. This report is not to be copied or made available to any persons without the express written consent of Drysdale Valuation, PLLC.

This valuation engagement was conducted in accordance with the SSVA of the AICPA and the SBVS of the ASA, and is subject to the Statement of Assumptions and Limiting Conditions as presented in the appendices to this report.

We have no present or contemplated financial interest in Doubleday, Inc.. Our fees for this analysis were based on our customary billing rates, and are in no way contingent upon the results of our findings. We have no obligation or responsibility to update this report for events, circumstances or information that comes to our attention subsequent to the date of this report, although we will be pleased to perform an update should one be required.

## Exhibit 19: Conclusion of Value

Discounted Future Cash Flow s <sup>1</sup>	\$ 225,000
Tax benefit of Imputed Interest Expense <sup>2</sup>	4,000
Benefit of Avoided Double Taxation <sup>3</sup>	34,000
Benefit of Basis Build-up <sup>4</sup>	22,000
	<hr/>
Preliminary Indication of Value	285,000
Less Fair Value of Obligation to Pay Creditors <sup>5</sup>	(89,000)
	<hr/>
Preliminary Indication of the Value of Equity	196,000
Less Adjustment for the Lack of Marketability - 10%	(19,600)
	<hr/>
<b>Fair Market Value of a 100% Interest in Doubleday, Inc. on a Controlling, Non-Marketable Basis</b>	<b>\$ 176,400</b>
	<hr/> <hr/>
<b>Rounded</b>	<b>\$ 176,000</b>
	<hr/> <hr/>

<sup>1</sup> From Exhibit 11.

<sup>2</sup> From Exhibit 12.

<sup>3</sup> From Exhibit 13.

<sup>4</sup> From Exhibit 14.

<sup>5</sup> From Appendix B.

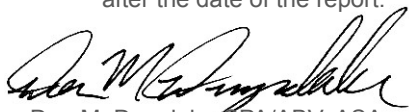


## Appendix A: Representations/Certification

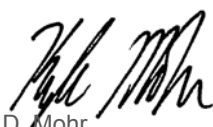


We certify that, to the best of our knowledge and belief:

- ◆ The statements of fact contained in this report are true and correct.
- ◆ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- ◆ We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- ◆ We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- ◆ Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- ◆ Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- ◆ Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services, and the Uniform Standards of Professional Appraisal Practice standards for conducting and reporting on business valuations.
- ◆ No one provided significant professional assistance to the persons signing this report.
- ◆ The economic, macroenvironmental and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that date.
- ◆ The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
- ◆ We have no obligation to update the report or the opinion of value for information that comes to our attention after the date of the report.



Don M. Drysdale, CPA/ABV, ASA



Kyle D. Mohr  
April 30, 2011



## Appendix B: Financial Information



**Doubleday, Inc.**  
Historical Balance Sheets

As of:	Dec. 31, 2008		Dec. 31, 2009		Dec. 31, 2010		Mar. 31, 2011	
<b>Assets:</b>								
Current Assets								
Cash	\$ 99,000	36.13%	\$ 56,000	27.32%	\$ 30,000	30.30%	\$ 49,000	96.08%
Other current assets	17,000	6.20%	12,000	5.85%	-	0.00%	-	0.00%
<b>Total Current Assets</b>	<b>116,000</b>	<b>42.34%</b>	<b>68,000</b>	<b>33.17%</b>	<b>30,000</b>	<b>30.30%</b>	<b>49,000</b>	<b>96.08%</b>
Fixed Assets								
Fixed assets	156,000	56.93%	157,000	76.59%	157,000	158.59%	156,209	306.29%
Accumulated depreciation	-	0.00%	(22,000)	-10.73%	(90,000)	-90.91%	(156,209)	-306.29%
<b>Total Fixed Assets</b>	<b>156,000</b>	<b>56.93%</b>	<b>135,000</b>	<b>65.85%</b>	<b>67,000</b>	<b>67.68%</b>	<b>-</b>	<b>0.00%</b>
Other Assets								
Security Deposits	2,000	0.73%	2,000	0.98%	2,000	2.02%	2,000	3.92%
<b>Total Other Assets</b>	<b>2,000</b>	<b>0.73%</b>	<b>2,000</b>	<b>0.98%</b>	<b>2,000</b>	<b>2.02%</b>	<b>2,000</b>	<b>3.92%</b>
<b>Total Assets</b>	<b>\$ 274,000</b>	<b>100.00%</b>	<b>\$ 205,000</b>	<b>100.00%</b>	<b>\$ 99,000</b>	<b>100.00%</b>	<b>\$ 51,000</b>	<b>100.00%</b>
<b>Liabilities and Equity:</b>								
Liabilities								
Current Liabilities								
Accounts payable	\$ -	0.00%	\$ 29,000	14.15%	\$ 35,000	35.35%	\$ 8,000	15.69%
Accrued expenses	-	0.00%	5,000	2.44%	9,000	9.09%	13,000	25.49%
Current portion of long-term	20,000	7.30%	25,000	12.20%	30,000	30.30%	-	0.00%
<b>Total Current Liabilities</b>	<b>20,000</b>	<b>7.30%</b>	<b>59,000</b>	<b>28.78%</b>	<b>74,000</b>	<b>74.75%</b>	<b>21,000</b>	<b>41.18%</b>
Long-Term Liabilities								
Long-Term Debt	160,000	58.39%	165,000	80.49%	165,000	166.67%	89,000	174.51%
<b>Total LT Liabilities</b>	<b>160,000</b>	<b>58.39%</b>	<b>165,000</b>	<b>80.49%</b>	<b>165,000</b>	<b>166.67%</b>	<b>89,000</b>	<b>174.51%</b>
<b>Total Liabilities</b>	<b>180,000</b>	<b>65.69%</b>	<b>224,000</b>	<b>109.27%</b>	<b>239,000</b>	<b>241.41%</b>	<b>110,000</b>	<b>215.69%</b>
<b>Total Equity</b>	<b>94,000</b>	<b>34.31%</b>	<b>(19,000)</b>	<b>-9.27%</b>	<b>(140,000)</b>	<b>-141.41%</b>	<b>(59,000)</b>	<b>-115.69%</b>
<b>Total Liabilities and Equity:</b>	<b>\$ 274,000</b>	<b>100.00%</b>	<b>\$ 205,000</b>	<b>100.00%</b>	<b>\$ 99,000</b>	<b>100.00%</b>	<b>\$ 51,000</b>	<b>100.00%</b>
<b>Working Capital</b>	<b>\$ 96,000</b>	<b>35.04%</b>	<b>\$ 9,000</b>	<b>4.39%</b>	<b>\$ (44,000)</b>	<b>-44.44%</b>	<b>\$ 28,000</b>	<b>54.90%</b>

Source: Internally prepared financial statements.

**Doubleday, Inc.**  
Historical Income Statements

<u>For the Years Ended:</u>	<u>Dec. 31, 2008</u>		<u>Dec. 31, 2009</u>		<u>Dec. 31, 2010</u>		<u>3 Months Ended Mar. 31, 2011</u>	
Total Revenues	\$ 14,000	100.0%	\$ 565,000	100.0%	\$ 735,000	100.00%	\$ 219,000	100.00%
Operating Expenses								
Advertising & promotion	79,000	564.3%	73,000	12.9%	54,000	7.3%	14,000	6.4%
Bank service charges	-	0.0%	2,000	0.4%	2,000	0.3%	-	0.0%
Licenses & permits	1,000	7.1%	4,000	0.7%	1,000	0.1%	-	0.0%
Computer & internet exp.	10,000	71.4%	56,000	9.9%	57,000	7.8%	15,000	6.8%
Contract labor	-	0.0%	50,000	8.8%	136,000	18.5%	30,000	13.7%
Insurance	-	0.0%	1,000	0.2%	1,000	0.1%	1,000	0.5%
Merchant account fees	-	0.0%	23,000	4.1%	48,000	6.5%	15,000	6.8%
Payroll	10,000	71.4%	200,000	35.4%	281,000	38.2%	84,000	38.4%
Professional fees	-	0.0%	43,000	7.6%	10,000	1.4%	3,000	1.4%
Recruitment & training	250	1.8%	2,000	0.4%	-	0.0%	3,000	1.4%
Rent	2,000	14.3%	24,000	4.2%	24,000	3.3%	6,000	2.7%
Telephone	1,000	7.1%	17,000	3.0%	18,000	2.4%	3,000	1.4%
Utilities	1,000	7.1%	15,000	2.7%	11,000	1.5%	3,000	1.4%
Office expenses	10,000	71.4%	31,000	5.5%	25,000	3.4%	6,000	2.7%
Other expenses	-	0.0%	10,000	1.8%	27,000	3.7%	3,000	1.4%
Depreciation	84,000	600.0%	2,000	0.4%	-	0.0%	-	0.0%
Total operating expenses	<u>198,250</u>	<u>1416.1%</u>	<u>553,000</u>	<u>97.9%</u>	<u>695,000</u>	<u>94.6%</u>	<u>186,000</u>	<u>84.9%</u>
Income from operations	<u>(184,250)</u>	<u>-1316.1%</u>	<u>12,000</u>	<u>2.1%</u>	<u>40,000</u>	<u>5.4%</u>	<u>33,000</u>	<u>15.1%</u>
<b>Net Income/(Loss)</b>	<b><u>\$ (184,250)</u></b>	<b><u>-1316.1%</u></b>	<b><u>\$ 12,000</u></b>	<b><u>2.1%</u></b>	<b><u>\$ 40,000</u></b>	<b><u>5.4%</u></b>	<b><u>\$ 33,000</u></b>	<b><u>15.1%</u></b>
<b>EBITDA</b>	<b>\$ (100,250)</b>	<b>-716.1%</b>	<b>\$ 14,000</b>	<b>2.5%</b>	<b>\$ 40,000</b>	<b>5.4%</b>	<b>\$ 33,000</b>	<b>15.1%</b>

Source: Internally prepared financial statements.

## Doubleday, Inc.

### Forecasted Capital Expenditures, Depreciation and Accumulated Depreciation

	Cap. Ex.	Balance	Life	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Depreciation on Existing Assets	\$ -			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation on Cap. Ex.									
Year 1	\$ 16,000		3	3,000	5,000	5,000	3,000	-	-
	34,000	50,000	5	3,000	7,000	7,000	7,000	7,000	3,000
Year 2	20,000		3		3,000	7,000	7,000	3,000	-
	45,000	115,000	5		5,000	9,000	9,000	9,000	9,000
Year 3	12,000		3			2,000	4,000	4,000	2,000
	47,000	174,000	5			5,000	9,000	9,000	9,000
Year 4	20,000		3				3,000	7,000	7,000
	51,000	245,000	5				5,000	10,000	10,000
Year 5	24,000		3					4,000	8,000
	51,000	320,000	5					5,000	10,000
Year 6	16,000		3						3,000
	54,000	390,000	5						5,000
Total Depreciation				6,000	20,000	35,000	47,000	58,000	66,000
Accumulated Depreciation		-		6,000	26,000	61,000	108,000	166,000	232,000
Net		-		44,000	89,000	113,000	137,000	154,000	158,000
<b>Estimate of Capital Expenditures:</b>									
Beginning Number of Servers				12	12	17	16	17	18
Additions				4	5	3	5	6	4
Retirements				(4)	-	(4)	(4)	(5)	(3)
Ending Number of Servers				12	17	16	17	18	19
Cost per Server				\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Total Servers				\$ 16,000	\$ 20,000	\$ 12,000	\$ 20,000	\$ 24,000	\$ 16,000
Employees - Beginning Balance				12	16	19	21	23	24
Employee Additions				4	3	2	2	1	1
Employees - Ending Balance				16	19	21	23	24	25
Cap. Ex. for New Employees	\$ 3,000			\$ 12,000	\$ 9,000	\$ 6,000	\$ 6,000	\$ 3,000	\$ 3,000
Cap. Ex. for Continuing Employees	1,000			12,000	16,000	19,000	21,000	23,000	24,000
Other Annual Capital Expenditures				10,000	20,000	22,000	24,000	25,000	27,000
				34,000	45,000	47,000	51,000	51,000	54,000
<b>Total Capital Expenditures</b>				<b>\$ 50,000</b>	<b>\$ 65,000</b>	<b>\$ 59,000</b>	<b>\$ 71,000</b>	<b>\$ 75,000</b>	<b>\$ 70,000</b>

**Doubleday, Inc.**  
Fair Market Value of Payment Obligations

Future Future Period Ending	Future Cash Flows (Loan Pmts)	Interest at 5.50%	Principal	Balance
March 15, 2011	\$ 2,000	\$ -	\$ 5,000	\$ 84,396
April 15, 2011	2,000	387	1,613	82,783
May 15, 2011	2,000	379	1,621	81,162
June 15, 2011	2,000	372	1,628	79,534
July 15, 2011	2,000	365	1,635	77,899
August 15, 2011	2,000	357	1,643	76,256
September 15, 2011	2,000	350	1,650	74,606
October 15, 2011	2,000	342	1,658	72,948
November 15, 2011	2,000	334	1,666	71,282
December 15, 2011	2,000	327	1,673	69,609
January 15, 2012	2,000	319	1,681	67,928
February 15, 2012	2,000	311	1,689	66,239
March 15, 2012	2,000	304	1,696	64,543
April 15, 2012	2,000	296	1,704	62,839
May 15, 2012	2,000	288	1,712	61,127
June 15, 2012	2,000	280	1,720	59,407
July 15, 2012	2,000	272	1,728	57,679
August 15, 2012	2,000	264	1,736	55,943
September 15, 2012	2,000	256	1,744	54,199
October 15, 2012	2,000	248	1,752	52,447
November 15, 2012	2,000	240	1,760	50,687
December 15, 2012	2,000	232	1,768	48,919
January 15, 2013	2,000	224	1,776	47,143
February 15, 2013	2,000	216	1,784	45,359

SAMPLE REPORT: Not representative of any actual individuals or companies.

Future Period Ending	Future Cash Flows (Loan Pmts)	Interest at 5.50%	Principal	Balance
March 15, 2013	\$ 2,000	\$ 208	\$ 1,792	\$ 43,567
April 15, 2013	2,000	200	1,800	41,767
May 15, 2013	2,000	191	1,809	39,958
June 15, 2013	2,000	183	1,817	38,141
July 15, 2013	2,000	175	1,825	36,316
August 15, 2013	2,000	166	1,834	34,482
September 15, 2013	2,000	158	1,842	32,640
October 15, 2013	2,000	150	1,850	30,790
November 15, 2013	2,000	141	1,859	28,931
December 15, 2013	2,000	133	1,867	27,064
January 15, 2014	2,000	124	1,876	25,188
February 15, 2014	2,000	115	1,885	23,303
March 15, 2014	2,000	107	1,893	21,410
April 15, 2014	2,000	98	1,902	19,508
May 15, 2014	2,000	89	1,911	17,597
June 15, 2014	2,000	81	1,919	15,678
July 15, 2014	2,000	72	1,928	13,750
August 15, 2014	2,000	63	1,937	11,813
September 15, 2014	2,000	54	1,946	9,867
October 15, 2014	2,000	45	1,955	7,912
November 15, 2014	2,000	36	1,964	5,948
December 15, 2014	2,000	27	1,973	3,975
January 15, 2015	2,000	18	1,982	1,993
February 15, 2015	2,002	9	1,993	-
			<u>\$ 89,396</u>	
			<u><b>\$ 89,000</b></u>	



## Appendix C: Sources of Information



In performing this analysis, we were provided with and/or relied upon various sources of information, including but not limited to:

- ◆ Doubleday, Inc. internally prepared financial statements for the years ended December 31, 2008 through 2010 and for the three months ended March 31, 2011;
- ◆ Doubleday, Inc. forecast of revenues, expenses and account balances based on assumptions and information provided by management;
- ◆ General information about the Company as presented on the web site, [www.Doubleday.net](http://www.Doubleday.net);
- ◆ Interviews with management of Doubleday, Inc.;
- ◆ Interviews with Joseph Jackson, bankruptcy attorney for Ted Williams and Ty Cobb;
- ◆ Unaudited supplemental information, including, but not limited to:
  - History of the Company;
  - Officer compensation;
  - General information on the Company's marketing, competitors, suppliers, customers, and other information from an interview with the Company's management;
- ◆ Surveys of industry peer financial results from BizMiner providing detailed financial ratio information on a variety of industry groupings, separated by company size;
- ◆ Analysis of information on possible publicly traded and privately held comparable companies and industry information including the following:
  - Search of the Electronic Data Gathering and Retrieval (EDGAR) database of public company filings with the Securities and Exchange Commission;
  - Analysis of possible public company and industry information via computer database;
  - Analysis of possible privately held comparable companies obtained from the BizComps database;
- ◆ Information regarding macroenvironmental factors including the economic outlook for the region, as well as the overall U.S. economy, technical innovations, government regulations and other factors;
- ◆ Information regarding the present conditions and outlook for the industry in which the Company operates;
- ◆ Resources regarding business valuation issues, including the following:
  - *Business Valuation Review*, a publication of the Business Valuation Committee of the American Society of Appraisers;
  - ASA Business Valuation Standards of the American Society of Appraisers, and the Uniform Standards of Professional Appraisal Practice, published by the Appraisal Foundation;
  - *Financial Valuation: Applications and Models*, Second Edition, 2006, Hitchner;
  - *Duff & Phelps, LLC Risk Premium Report 2010*, a publication of Duff & Phelps, LLC, distributed by Business Valuation Resources, updated annually;
  - *Stocks, Bonds, Bill & Inflation, 2010 Yearbook*, a publication of Morningstar, Inc. – updated annually; and,
- ◆ Other various relevant information.



## Appendix D: Statement of Assumptions and Limiting Conditions



**U.S. Treasury Circular 230 Notice:**

Federal regulations require the following disclosure. The opinion arrived at in the report is limited to the Federal tax issues previously stated. Additional issues may exist that could affect the Federal tax treatment of the transaction or matter that is the subject of this opinion and this opinion does not consider or provide a conclusion with respect to any additional issues. With respect to any significant Federal tax issues outside the scope of this opinion, this opinion was not written, and cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.

**Valuation Misstatement**

The Pension Protection Act of 2006 allows the United States Treasury Department to impose civil and monetary penalties on appraisers for “substantial” or “gross” valuation misstatements. A “substantial” misstatement exists when the appraised value is 65 percent or less of the amount determined to be correct by the IRS. A “gross” misstatement exists when the appraised value is 40 percent or less of the amount determined to be correct by the IRS. Unless otherwise agreed in writing, Doubleday warrants and agrees that it shall not, nor any owner, officer, employee or representative of Doubleday shall accept any settlement with any governmental authority that may result in a “substantial” or “gross” valuation misstatement or other penalty imposed on Drysdale Valuation, PLLC, its owners or officers, without first informing and consulting with Drysdale Valuation, PLLC.

**We have relied upon information:**

We have based our report on historical and prospective financial information, historical and current entity information, and other information provided by owners, management, and third parties. We have not audited or reviewed this information and the resulting report should not be construed, or referred to as an audit, examination or review. Had we audited or reviewed the underlying data and information, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we take no responsibility for the underlying data presented or relied upon in this report. We have assumed that all of the representations and information supplied by the Company, its management and agents are true, accurate, and complete.

We have relied on public and other information sources we believe to be reliable. However, we make no representation as to the accuracy, completeness or correctness of such information and have performed no procedures to corroborate the information.

We have relied upon the representations of the owners, management, and third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that the Company has good title to all assets. Drysdale Valuation, PLLC assumes no responsibility for matters of a legal or tax-oriented nature affecting any of the property valued or any opinion of value.

We based this valuation in part on forecasts of revenues, earnings, and other matters as estimated by the management of the Doubleday, Inc. Some assumptions inevitably will not materialize, and numerous unanticipated events and circumstances may occur. Therefore, the actual performance in the areas forecasted will vary from the forecasts and the variations may be material. Drysdale Valuation, PLLC expresses no form of assurance whatsoever on the likelihood of achieving the forecasts or on the reasonableness of the assumptions, representations and conclusions.

Any such forecasts are presented for valuation purposes only, and are not intended to be used separately or for any other purpose, including: to obtain credit, make investment decisions, make purchase decisions, or solicit investors. Any such potential parties must independently examine the outlook for the Company and make their own separate determinations. The parties should employ qualified advisors to assist them in doing so.

**The report will not be used for:**

We have performed this valuation only for the Company and the purpose stated herein. The report and any information contained within are not to be used for any other purpose by any other party. Such other use will render the report invalid and is not authorized. This report or its findings are not to be included in, or referred to, in any offering memorandum (public or private) or prospectus of any kind.

The report, its information and findings are confidential and are not to be published, copied, reproduced, disclosed, or disseminated in any way by any means, in whole or in part, without the express prior written permission of a duly authorized officer of Drysdale Valuation, PLLC. This report is copyrighted and remains the property of Drysdale Valuation, PLLC. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of Drysdale Valuation, PLLC.

**Assumptions (not all inclusive):**

In determining the opinion of value included in this report, we have assumed that the existing management will maintain the character and integrity of the Company through any reorganization or reduction of any existing owner's/manager's participation in the activities of the Company.

We have assumed that there are no factors such as restrictive agreements of any kind, other than those noted herein, which will affect or impair value in any way or the ability to affect an expedient sale of the ownership interest being valued.

We have assumed for valuation purposes that the Company is in good standing and is not in violation of any laws or regulatory statute of any kind; this has not been independently verified. We have also assumed that there are no contingent or other liabilities of any kind, including pending or threatened lawsuits, environmental or hazardous waste or other similar matters except as noted herein.

The dollar amount of any value reported is based on the purchasing power of the U.S. dollar as of the valuation date. The appraiser assumes no responsibility for economic or physical factors occurring subsequent to the date that may affect the opinions reported.

Drysdale Valuation, PLLC is not an environmental consultant, engineer or auditor, and takes no responsibility for any actual or potential liability from environmental contamination or injury from such contaminants or hazardous substances. Drysdale Valuation, PLLC has not independently determined whether the subject business enterprise is subject to any present or future liability relating to environmental matters (including but not limited to CERCLA/Superfund liability, contamination of soil, water or air, or release of any substance that could damage the environment or individuals) nor the scope of any such liabilities. We take no such liabilities into account, except as they have been reported to us by the subject company or by an environmental consultant working for the subject company, and then only to the extent that the liability was report to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, Drysdale Valuation, PLLC has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

The estimate of fair market value assumes that the Company is a "going concern," based on an all cash purchase, or equivalent terms thereof. The Company would have a materially different value in liquidation. No estimate of the value that could be achieved in liquidation is included in this report.

**If the business is sold or transferred:**

Drysdale Valuation, PLLC, Don M. Drysdale, CPA/ABV, ASA, and Kyle D. Mohr do not purport to be guarantors of value. Valuations involving closely held companies is an imprecise science, with value being a question of fact, and reasonable people differing in their opinions of value. However, Drysdale Valuation, PLLC and the individual analyst(s) have used conceptually sound and commonly accepted methods and procedures of valuation in determining the opinion of value included in this report.

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**SAMPLE REPORT: Not representative of any actual individuals or companies.**

Nothing in this report is intended to recommend, imply or provide any guarantees, representations, or opinions of any kind whatsoever regarding the financial prudence, collateral, investment potential or debt service ability of the Company or any investment in its stock or assets by any party, including investors of any kind, financial institutions and all other individuals or entities. Such parties should undertake a full due diligence review of the Company and make their own independent determinations of its future prospects, financial and otherwise, and the financial prudence, tax, legal, and all other ramifications of any contemplated transaction and should retain independent and qualified advisors.

Nothing in this report should be construed as providing a "due diligence" study of the Company, as such a study has not been undertaken. Such a study could uncover factors not considered herein which could result in a materially different estimate of value. No "fairness opinion" of any kind is expressed herein regarding an ownership interest in the subject entity or for any pending or contemplated transaction.

Nothing in this report constitutes a recommendation regarding the purchase or sale of any securities or assets. Drysdale Valuation, PLLC expresses no opinion, guarantees or form of assurance of any kind, expressed or implied, on the potential investment performance resulting from a purchase of an interest in the Company or its assets.

This report is neither an offer to sell, nor a solicitation to buy securities, and/or equity in, or assets of, the subject entity.

**Other:**

We have no present or contemplated financial interest in the Company. Our fee for this analysis is based upon our customary billing rates plus out-of-pocket expenses, and is in no way contingent upon the results of our findings. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report, although we would be happy to do so should prior arrangements be made, including providing expert testimony or to be in attendance in court or at any government hearing with reference to the matters contained herein. The opinion expressed herein is valid only for the stated effective date, March 31, 2011, and only for the stated valuation purpose. The actual value realized at a date subsequent to the valuation date may vary from the value set forth and such variations may be material.

No change of any item in the report shall be made by anyone other than Drysdale Valuation, PLLC, and we shall have no responsibility for any such unauthorized change.

The valuation date is stated in the report without any guarantees as to the fair market value at the valuation date or any future date, or any contrary opinions as to the value as of the same date.

Possession of the report or work papers or other written documentation regarding the analysis does not carry with it the right of publication of all or part of it, nor may it be used or relied upon without previous written consent for any purpose other than that set forth above. No third parties are intended to be benefitted. Drysdale Valuation, PLLC assumes no responsibility for any liability for damages of any kind resulting from reliance on this report by the Company or any other party. Schedules, information and other work papers developed during the assignment by Drysdale Valuation, PLLC or supplied by the client are the sole property of Drysdale Valuation, PLLC and are not subject to examination or production to the client at any time during or after the engagement.

