



HOLTHOUSE
CARLIN &
VAN TRIGT^{LLP}

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014 AND 2013

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
DECEMBER 31, 2014 AND 2013

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Independent Auditor's Report

To the Members of
Kelton Research, LLC:

Report on Financial Statements

We have audited the accompanying financial statements of Kelton Research, LLC, a California limited liability company, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kelton Research, LLC as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report
(Continued)

Disclaimer of Opinion on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information presented in Schedule I, which is the responsibility of management, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Holtzhouse Carlin & Van Trigt LLP

Los Angeles, California
March 13, 2015

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 214,439	\$ 531,263
Accounts receivable, net	4,199,922	4,527,247
Unbilled accounts receivable	697,699	400,946
Prepaid expenses and other current assets	145,047	79,647
Total current assets	5,257,107	5,539,103
Property and equipment, net	327,073	386,484
Security deposits	122,491	122,491
Investment	25,000	25,000
Total assets	\$ 5,731,671	\$ 6,073,078
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable	\$ 207,191	\$ 692,120
Accrued expenses	127,472	151,099
Accrued payroll and employee-related expenses	557,230	314,067
Deferred revenue	1,863,219	1,657,179
Line of credit	-	350,000
Loan payable, current portion	9,960	10,568
Total current liabilities	2,765,072	3,175,033
Loan payable, net of current portion	13,797	25,897
Total liabilities	2,778,869	3,200,930
Commitments and contingencies		
Members' equity	2,952,802	2,872,148
Total liabilities and members' equity	\$ 5,731,671	\$ 6,073,078

See notes to financial statements.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Revenues	<u>\$ 19,394,170</u>	<u>\$ 18,513,135</u>
Total costs and operating expenses:		
Cost of revenues	4,981,745	5,179,859
Payroll and related costs	9,250,733	8,323,960
General and administrative	2,373,841	2,149,919
Marketing and advertising	155,741	201,245
Occupancy	511,360	535,264
Depreciation and amortization	<u>109,356</u>	<u>101,601</u>
Total operating expenses	<u>17,382,776</u>	<u>16,491,848</u>
Operating income	2,011,394	2,021,287
Other expense:		
Interest expense, net	<u>5,523</u>	<u>9,006</u>
Income before state income taxes	2,005,871	2,012,281
State income taxes	<u>126,093</u>	<u>146,852</u>
Net income	<u>\$ 1,879,778</u>	<u>\$ 1,865,429</u>

See notes to financial statements.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Balance, December 31, 2012	\$ 2,328,751
Net income	1,865,429
Distributions	<u>(1,322,032)</u>
Balance, December 31, 2013	2,872,148
Net income	1,879,778
Distributions	<u>(1,799,124)</u>
Balance, December 31, 2014	<u>\$ 2,952,802</u>

See notes to financial statements.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,879,778	\$ 1,865,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	109,356	101,601
Provision for doubtful accounts	-	14,545
Changes in assets and liabilities:		
Accounts receivable	327,325	(2,610,356)
Unbilled accounts receivable	(296,753)	98,648
Prepaid expenses and other current assets	(65,400)	67,962
Security deposits	-	39,727
Accounts payable	(484,929)	(117,441)
Accrued expenses	(23,627)	20,820
Accrued payroll and employee-related expenses	243,163	7,846
Deferred revenue	206,040	957,335
Net cash provided by operating activities	1,894,953	446,116
Cash flows from investing activities:		
Purchases of property and equipment	(49,945)	(102,930)
Cash used in investing activities	(49,945)	(102,930)
Cash flows from financing activities:		
Repayments on long-term debt	(12,708)	(11,469)
Proceeds from line of credit	1,000,000	2,350,000
Repayments on line of credit	(1,350,000)	(2,000,000)
Distributions	(1,799,124)	(1,322,032)
Net cash used in financing activities	(2,161,832)	(983,501)
Net change in cash and cash equivalents	(316,824)	(640,315)
Cash and cash equivalents, beginning of year	531,263	1,171,578
Cash and cash equivalents, end of year	\$ 214,439	\$ 531,263
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 9,947	\$ 9,547
Cash paid for state income taxes	\$ 18,284	\$ 146,852

See notes to financial statements.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1. DESCRIPTION OF BUSINESS

Kelton Research, LLC (the "Company") was formed in the State of California as a limited liability company in 2003. In 2005, the Company elected S corporation status under the Internal Revenue Code for federal and state income tax purposes. The Company, headquartered in Los Angeles, California, is a research, strategy, and design consultancy, providing qualitative and quantitative innovation and design research for a wide variety of companies across multiple sectors predominantly in the United States of America.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Company maintains its accounting records on an accrual method in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of such estimates include revenue recognition and the carrying amount of property and equipment. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when all of the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) price to the customer is fixed or determinable; and (iv) collectability is reasonably assured. Reserves for discounts and allowances are recorded when the related revenue is recognized. The Company recognizes revenue on its service contracts based on proportional performance. Costs incurred are used as an objective input measure of performance. The primary input of all work performed under these arrangements is labor. As a result of the relationship between labor and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. Substantially all services are provided on a fixed price basis. Unbilled accounts receivable represent revenue for services performed that have not yet been billed as of the balance sheet date. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue recognition criteria are met.

Cash and Cash Equivalents

Cash and cash equivalents include cash and liquid investments with maturities of 90 days or less upon acquisition. Cash equivalents are carried at cost, which approximates fair value.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Management estimated allowance for doubtful accounts in the amount of approximately \$107,000 as of December 31, 2014 and 2013.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Major improvements are capitalized while expenditures for maintenance, repairs and minor improvements are charged to expense. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the term of the lease or estimated useful life of the asset, whichever is shorter.

Recoverability of Long-Lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, *Property, Plant and Equipment – Impairment or Disposal of Long Lived Assets*, property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment losses were recognized for the years ended December 31, 2014 and 2013.

Investment

The Company accounts for its investment in accordance with FASB ASC 323-30, *Investments – Equity Method and Joint Ventures – Partnerships, Joint Ventures, and Limited Liability Entities*. In accordance with FASB ASC 323-30, investments in limited liability companies for which the Company does not possess the ability to exercise significant influence over the investees' operating or financing decision making process shall be accounted for using the cost method of accounting. Under the cost method of accounting, the Company's share of the earnings or losses of such investee companies is not included in the balance sheet or statement of income.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease Accounting

The Company's leases are accounted for under the provisions of FASB ASC 840, *Leases*, which require that leases be evaluated and classified as operating or capital leases for financial reporting purposes. Minimum base rent for operating leases, which generally have escalating rentals over the terms of the leases, are recorded on a straight-line basis over the initial lease term and those renewal periods for which an exercise of such renewal options is reasonably assured.

Advertising costs

Advertising costs are expensed as incurred. Advertising expense totaled approximately \$0 and \$12,000 for the years ended December 31, 2014 and 2013, respectively, and is included in marketing and advertising expense on the accompanying statements of income.

Income Taxes

The Company has elected S corporation status under the Internal Revenue Code; therefore, is not subject to federal income taxes. Earnings and losses are passed through to its members and included in the members' income tax returns. Accordingly, no liability or provision for federal income taxes attributable to S corporation operations is included in the accompanying financial statements, nor are any deferred taxes provided for temporary differences between tax and financial reporting. The Company is subject to certain state income taxes. The state of California imposes an S corporation a tax rate of 1.50% on its taxable income, in addition to an annual \$800 minimum franchise tax for the right to conduct business in the state of California. The state of New York also requires an S corporation to pay taxes based on its taxable income or at a fixed minimum amount, whichever is higher.

The Company has adopted the provisions of FASB ASC 740, *Income Taxes*. FASB ASC 740 prescribes a recognition threshold measurement attributed for financial recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters, such as de-recognition, interest and penalties, and disclosure. The Company evaluates uncertain tax positions by considering the tax years subject to potential audit under state and federal income tax law and identifying favorable tax positions that do not meet the threshold of more likely than not to prevail if challenged by tax authorities that would have a direct impact on the Company. The Company has determined that there are no uncertain tax positions that would have a material effect on the financial statements as of December 31, 2014 and 2013. With few exceptions, the Company is no longer subject to federal and state income tax examinations by tax authorities for years before 2010.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 3. CONCENTRATION OF CREDIT RISK

The Company places its cash and temporary cash investments with a financial institution that management considers to be of high quality. Such deposits may periodically exceed the Federal Deposit Insurance Corporation's insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Company had revenue from one customer representing 12% of total revenues for the year ended December 31, 2014, and two customers representing 14% and 11% of total revenues for the year ended December 31, 2013. The Company had accounts receivable related to one customer representing 13% of total accounts receivable at December 31, 2014, and one customer representing 15% of total accounts receivable at December 31, 2013.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2014 and 2013:

	2014	2013
Furniture and fixtures	\$ 676,921	\$ 626,976
Vehicles	93,950	93,950
Software	25,399	25,399
Capitalized website costs	60,800	60,800
Leasehold improvements	28,465	28,465
	885,535	835,590
Less: accumulated depreciation and amortization	(558,462)	(449,106)
	\$ 327,073	\$ 386,484

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 amounted to approximately \$109,000 and \$102,000, respectively.

NOTE 5. INVESTMENT

In August 2012, the Company received a convertible promissory note from Bespoke Acquisition Company, LLC (the "Investee") in the principal amount of \$25,000, bearing interest at a rate of 17.50% per annum. Concurrent with the execution of the promissory note, the Company exercised the option to convert the note into Class A Units of the Investee at the conversion price of \$900 per unit pursuant to the provisions of the promissory note. At the effective date of the conversion, the Company's membership interest in the Investee represented less than 1.00%. In accordance with the limited liability company agreement of the Investee, Class A Unit holders shall have no voting rights and be entitled to certain priority distributions. The carrying value of this investment amounted to \$25,000 as of December 31, 2014 and 2013.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 6. LINE OF CREDIT

In July 2013, the Company entered into a revolving line of credit agreement (the "LOC") with Citibank, N.A. (the "Lender") providing for maximum borrowings of up to \$2,000,000, bearing interest at an Index Rate (as defined) plus 1.00% (4.25% at December 31, 2014 and 2013). Monthly payments of all accrued unpaid interest shall be due commencing August 5, 2013, and any outstanding principal and accrued and unpaid interest shall be due on demand. The LOC shall continue in full force and effect until such time as all of the obligations under the LOC have been paid in full or until such time as the Company and the Lender may agree in writing to terminate the LOC. The LOC shall be collateralized by substantially all of the assets of the Company and guaranteed by its members and a living trust of one of the members. As of December 31, 2014, no principal balance was outstanding and available borrowings under the LOC amounted to \$2,000,000. As of December 31, 2013, the principal balance outstanding and available borrowings under the LOC amounted to \$350,000 and \$1,650,000, respectively. Under the provisions of the LOC, the Company is required to satisfy certain financial covenants, which include a Leverage Ratio (as defined) of not less than 2.00 to 1.00 and a Debt Service Coverage Ratio (as defined) of not less than 1.15 to 1.00. As of December 31, 2014 and 2013, the Company was in compliance with these loan covenants.

NOTE 7. LOAN PAYABLE

In December 2011, the Company obtained a loan in the principal amount of approximately \$59,000 bearing interest at a rate of 2.90% per annum to purchase a vehicle. The loan, collateralized by the vehicle, provides for a monthly payment in the amount of approximately \$1,100 and any outstanding principal and accrued and unpaid interest shall be due and payable in December 2016. As of December 31, 2014 and 2013, the principal balance outstanding under the loan amounted to approximately \$24,000 and \$36,000, respectively.

Future minimum principal payments under the loan agreement as of December 31, 2014 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2015	\$ 9,960
2016	13,797
	<u>\$ 23,757</u>

NOTE 8. RETIREMENT PLAN

The Company has a profit sharing and 401(k) plan (the "Plan") to provide retirement benefits for its eligible employees. The Plan covers substantially all employees of the Company. Employees may contribute their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company matches 100% of employee contributions up to 3% of the employee's gross wages and thereafter 50% of employee contributions up to 2% of the employee's gross wages. For the years ended December 31, 2014 and 2013, the Company made matching contributions to the Plan in the amount of approximately \$193,000 and \$144,000, respectively.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities in Los Angeles and New York City under long-term, non-cancelable operating lease agreements, expiring through December 2017. Each lease includes one 5-year renewal option at the end of the lease term. Rent expense related to the non-cancelable leases amounted to approximately \$511,000 and \$535,000 for the years ended December 31, 2014 and 2013, respectively, which is included in occupancy expenses on the accompanying statements of income.

Future minimum lease payments under the non-cancelable operating leases as of December 31, 2014 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2015	\$ 476,681
2016	527,131
2017	<u>415,257</u>
	<u>\$ 1,419,069</u>

NOTE 10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events that have occurred through March 13, 2015, which is the date that the financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements.

KELTON RESEARCH, LLC
(A CALIFORNIA LIMITED LIABILITY COMPANY)
SUPPLEMENTAL SCHEDULES
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA),
AND ADJUSTED EBITDA
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(UNAUDITED)

	<u>2014</u>	<u>2013</u>
Net income	\$ 1,879,778	\$ 1,865,429
Add-backs:		
Interest expense, net	5,523	9,006
State income taxes	126,093	146,852
Depreciation and amortization	<u>109,356</u>	<u>101,601</u>
EBITDA	2,120,750	2,122,888
Members' performance compensation	<u>367,092</u>	<u>875,576</u>
Adjusted EBITDA	<u>\$ 2,487,842</u>	<u>\$ 2,998,464</u>

See independent auditor's report.