Deloitte.

SONY PICTURES ENTERTAINMENT INC.

Valuation Consulting Services Related to SFAS 141 and the Purchase of Grouper Networks, Inc.

As of August 21, 2006





Deloitte Financial Advisory Services LLP 350 South Grand Avenue Los Angeles, California 90071 Tel: 213.688.0800

Fax: 213.688.0100 www.deloitte.com

February 23, 2007

Mr. David Mastalski Vice President, Corporate Finance Sony Pictures Entertainment, Inc. 10202 West Washington Boulevard Culver City, California 90232

Re: Valuation Consulting Services Related to SFAS Statement No. 141

Dear Mr. Bond:

Pursuant to your authorization, Deloitte Financial Advisory Services LLP ("Deloitte FAS") has completed a valuation of certain acquired intangible assets (the "Assets") from Grouper Networks, Inc. ("Grouper" or the "Company") for Sony Pictures Entertainment, Inc. ("SPE") as of August 21, 2006 ("Valuation Date"). Our analysis was performed to assist SPE management ("Management") in its allocation of the purchase price paid for the Assets for financial reporting purposes.

Our services related to estimating the fair value of the Assets and, by extension, the residual balance allocated to goodwill based on Management's representation of the purchase price paid and the fair value of other assets acquired and liabilities assumed. For purposes of this analysis, fair value is defined:

The amount at which an asset (or liability) could be exchanged (or settled) in a current transaction between knowledgeable, unrelated willing parties when neither party is under compulsion.¹

Purpose and Scope

It is our understanding that this analysis will only be used to assist Management in its allocation of the purchase price among the acquired assets for financial reporting purposes. Guidelines for estimating the fair value of assets and their useful lives, for purchase accounting, are outlined in Statement of Financial Accounting Standard ("SFAS") Nos. 141 and 142. Management requested that Deloitte FAS provide valuation consulting services to estimate the fair value of certain intangible assets acquired from Grouper.

The results of our analysis are to be used only for financial reporting purposes and, as such, the use of this report is limited to this purpose. Neither this report nor its contents may be used, circulated, quoted, or otherwise referred to in whole or in part to any other party without the prior written authorization of Deloitte FAS. As part of this assignment, we did not independently investigate or otherwise verify the data provided by SPE or Grouper, or those obtained from publicly available sources and do not express an

¹ Financial Accounting Standards Board Statement No. 141 ("SFAS 141") and Statement of Financial Accounting Concepts No. 7 ("CON 7").

Mr. Mastalski Sony Pictures Entertainment, Inc. February 23, 2007 Page 2

opinion or other form of assurance regarding its accuracy or completeness. Although we applied principles and procedures that, in our view, appear appropriate, no assurance can be given that the fair values of the Assets, economic useful lives, or any other underlying assumptions will not be subject to review or challenge by regulatory authorities.

The scope of our engagement included, but was not limited to the following:

- Gaining familiarity with the history and nature and underlying business strategy of the Grouper;
- Developing an understanding of the economic and competitive environments of the industry in which Grouper participate;
- Assisting Management in its identification of the intangible assets acquired;
- Estimating the fair value of the certain acquired intangible assets; and
- Preparation of this report outlining the value indications, the methodologies employed, and the assumptions inherent to the analysis.

Deloitte FAS' efforts did not encompass the valuation of any acquired tangible assets or assumed liabilities. Instead, we have relied upon Management's estimates for the value of the acquired tangible assets, any other assets not included in our analysis and any assumed liabilities.

Summary of Findings

Based upon but not limited to the above, we estimated the fair value of the Assets, as of the Valuation Date, to be as indicated in Table 1. Any remaining goodwill was calculated by subtracting the estimated fair value of the Assets and Management's estimated fair value of the tangible assets from the total basis of the assets acquired (See **Exhibit 1**). Management's determination of the useful lives of the respective assets is also shown in Table 1.

² Sources: SFAS 141 paragraph 39, SFAS 142 paragraph 18, and Management for non-appraised assets.

Mr. Mastalski Sony Pictures Entertainment, Inc. February 23, 2007 Page 3

Table 1
Grouper Networks, Inc.
Estimated Fair Value of the Intangible Assets
As of the Valuation Date

\$ in thousands		
	Estimated Fair	Estimated Economic Life
Selected Assets	Value	(Years)
Grouper - Trade Name	\$900	Indefinite
Software Technology	4,100	5
Marketing and Development Contracts	462	0.37
Goodwill (Including Workforce)	57,531	N/A
Total Intangible Assets	\$62,993	

We appreciate this opportunity to provide valuation consulting services to Sony Pictures Entertainment, Inc. If you have any questions, please contact Nick Florio at 213-688-5421 or JD Tengberg at 213-553-1285.

Very truly yours,

Deloitte Financial Advisory Services LLP By: Nicholas M. Florio, Principal

Attachment

TABLE OF CONTENTS

Table of Contents	•••••	•••••
Engagement and Transaction Overview		1
Company Background		
Econonmic Outlook		
General Economic Overview		A
Inflation and Consumer Spending		
Financial Markets		
Interest Rates		
Summary Overview		
Industry Review		
Internet Advertising		
Internet Content		
Trends	VIOLENIA AND V	·
Summary		
Valuation Overview		
Income Approach		
Market Approach		
Cost ApproachValuation Methods Applied		
Valuation Process		
Internal Rate of Return		
Discount Rate Derivation		
Intangible Assets - Identification		
Valuation Analysis		12
Tangible Assets		
Trade Name		
Software Technology		13
Marketing and Development Contracts		14
Weighted Average Return on Assets & Reco	onciliation of Discount Rate	es14
Goodwill and Estimated Useful Lives of Inta	angible Assets	15
Goodwill		15
Estimated Economic Life of the Intangible		
Statement of Appraisal Assumptions and Li	imiting Conditions	18
Appraisal Certification	•••••	19
Qualifications of Appraisers	•••••	20
Exhibits		22



ENGAGEMENT AND TRANSACTION OVERVIEW

Deloitte Financial Advisory Services LLP ("Deloitte FAS") was engaged by Sony Pictures Entertainment, Inc. ("SPE") to assist its management ("Management") in estimating the fair value and remaining useful lives of certain intangible assets (the "Assets") acquired from Grouper Networks, Inc. ("Grouper" or the "Company") on August 21, 2006 ("Valuation Date"). It is our understanding that the results of this analysis will be used solely to assist Management in its allocation of the purchase price among the Assets acquired for financial reporting purposes.

We understand that on August 21, 2006, SPE completed its acquisition of Grouper, a start-up operator of an online video sharing site. The total cash consideration paid for the transaction was approximately \$52.5 million. Including non-interest bearing liabilities, transaction related expenses, and earn-out³ consideration, the total amount to allocate to the assets acquired, as provided to us by Management, is approximately \$63.5 million:

Cash Consideration			\$52,500,000
Plus: Present Value of Earn-out			8,900,000
Plus: Transaction Related Expenses			1,312,000
Plus: Non-interest Bearing Current I	Liabilities Assu	ımed	818,878
Total Asset Base to Allocate			\$63,530,000

Relevant observations and quotes from the financial press regarding the transaction include⁴:

- "Sony Pictures Entertainment has become the latest traditional media company to plunge into the new media arena with the \$65m acquisition of Grouper, an internet company that specializes in user-generated video."
- "Grouper has 8 million unique users, the largest internet video aggregator. However, that figure has grown from 1 million in March. The company also boasts a video-sharing technology that allows users to post Grouper-created videos on other social networking sites, such as MySpace or Friendster, expanding its potential reach."
- "Michael Lynton, chief executive of Sony Pictures, said the studio saw a number of possible uses for Grouper, from distributing and promoting its films and television programmers on the internet to serving as a pipeline of new ideas and creative talent."
- "The deal offered the latest indication that traditional media companies are rushing to gain a foothold in new internet-based forms of entertainment that have quickly built young audiences."

⁴ The Financial Times.com, Published: August 23 2006.



_

³ According to the purchase agreement, Sony agreed to pay an earn-out to the sellers of Grouper if certain revenue and data streams have been met in 2007 and 2008. For the purpose of our analysis, we calculated the present value of the earn-out that would be paid based upon the overall forecast of the Company being met. See Exhibit 2.

COMPANY BACKGROUND

About Grouper⁵

Founded in 2004 by Josh Felser and Dave Samuel in Mill Valley, California, Grouper is one of the fastest growing user-generated video communities on the internet and operates as a media file-sharing company. It offers Grouper software, a Windows XP-based application that allows users to share their personal media with the world and/or safely within private groups; and upload video and photo previews to Grouper.com where other users can view them and then choose to download them through a distributed download network. The Grouper software allows its users to connect directly to their friends' hard drives and share large media files in an encrypted environment. Grouper is considered the second largest independent video community with 7.0 million global unique users and 3.0 million users in the United States per month. Grouper reaches to a young demographic mainly composed of 58.0 percent male users. Over 112,000 videos programmed across multiple genre-based channels are uploaded to Grouper's website.

Grouper differentiates from their competitors by having an experienced management team, Grouper syndicates video to other sites such as MySpace, Friendster, Facebook, Y!360, Everyone's Connected. WordPress, and Blogger through a one-click posting, Grouper leverages peer-to-peer (P2P) proprietary technology with high video quality and low delivery cost, and Grouper also differentiates by enabling video portability to multiple devices and distributes easy-to-use video editing tools.

In addition, Grouper's site allows users to download videos to their desktops and offers versions formatted for viewing on Sony's PlayStation Portable and Apple Computer's iPod with video. The site also permits video material to be integrated into a user's blog and lets users attach video comments by webcam to existing material. Grouper offers a software tool that allows users to edit video, add soundtracks and captions, and produce finished video pieces.

About SPE⁶

Sony Pictures Entertainment, Inc. is a subsidiary of Sony Corporation of America ("SCA"), a subsidiary of Tokyo-based Sony Corporation. SPE's global operations encompass motion picture production and distribution; television production and distribution; digital content creation and distribution; worldwide channel investments; home entertainment acquisition and distribution, operation of studio facilities; development of new entertainment products, services and technologies; and distribution of filmed entertainment in 67 countries.

ECONONMIC OUTLOOK³

General Economic Overview

According to estimates released by the Department of Commerce's Bureau of Economic Analysis, Real Gross Domestic Product ("GDP"), which consists of the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 1.6 percent during the third

³ "The National Economic Review," Third Quarter 2006.



_

⁵ Various Internet sources.

⁶ Source: Grouper Press Room, Sony Pictures Entertainment Acquires Grouper, www.grouper.com

quarter of 2006. This is the twentieth consecutive quarterly rise in GDP subsequent to the 2001 recession, and compares to a revised increase of 2.6 percent in the second quarter of 2006.

Although GDP growth was expected to slow in the third quarter, economists predicted somewhat higher growth in GDP between 2.0 to 2.5 percent. Economists predict GDP growth of 2.5 percent for the fourth quarter of the year. Growth for 2007 is expected to remain steady at 2.5 to 2.7 percent. Expected slowdown on GDP growth is primarily the result of a slowing housing market; however, economists believe the worst of the residential decline has passed. Improvement over third quarter growth figures will depend from lower energy prices, improved trade, and consumer spending.

The Conference Board ("TCB") reported that the Composite Index of Leading Economic Indicators ("LEI"), which is the government's primary forecasting measure, increased 0.1 percent in September 2006 to 137.7 after decreases of 0.3 percent and 0.2 percent in July and August of 2006, respectively. This index attempts to measure economic activity six to nine months in advance. Multiple consecutive moves in the same direction are considered to be indicative of the general direction of the overall economy. Five of the ten leading economic indicators rose during September 2006. Positive contributors to the LEI included: average weekly initial claims for unemployment insurance, index of consumer expectations, real money supply, average weekly manufacturing hours, interest rate spread, and manufacturers' new orders for non-defense capital goods.

Inflation and Consumer Spending

In the inflation and consumer spending arena, the seasonally adjusted annual rate ("SAAR") of inflation for the third quarter of 2006 was 0.8 percent, compared to changes of negative 1.8 percent, and 4.3 percent respectively, for the last two quarters of 2005.

On the other hand, the Producer Price Index ("PPI"), which is recognized as a measure of near term consumer inflation, decrease 1.3 percent in September 2006, after increases of 0.1 percent in both July and August of 2006, respectively. Another important statistic in the consumer spending field according to the Bureau of Economic Analysis; durable goods purchases were up 8.4 percent in the third quarter after decreasing 0.1 percent in the second quarter of 2006.

Financial Markets

The Dow closed the third quarter of 2006 at 11679.07, up 0.47 percent for the quarter. The S&P 500 index rose 5.2 percent during the third quarter of 2006 to close at 1335.85 following a 1.9 percent decrease in the second quarter of 2006. The NASDAQ Composite Index rose 4.0 percent during the third quarter of 2006 to close at 2258.43, following a 7.2 percent decrease in the second quarter of the same year.

In the Valuation analysis data for the third quarter of 2006, the monthly average yields-to-maturity on the 20 year Treasury bond were 5.25 percent, 5.08 percent, and 4.93 percent, for July, August, and September respectively. Bond prices are negatively correlated with their respective yields, which can shift due to investor reactions to major variances in reported economic data versus market expectations such as expected inflation, growth, monetary policy and other Federal Reserve actions. The Long-term rates have begun to respond to the Federal Reserve's practice of leaving interest rates unchanged.



Interest Rates

The Federal Reserve's Open Market Committee ("FOMC") kept its target for the federal funds rate unchanged at 5.25 percent during the third quarter of 2006. The actions were consistent with policy positions and actions taken since the last half of 2003.

In its staff forecast, a slowdown in the energy prices, a sustained increase in labor income, and favorable labor market conditions were among the factors underlying a more favorable outlook during the third quarter of 2006. The staff forecast suggests that after the significant deceleration of the housing market, growth would be minimal over the balance of the year. However, once the housing correction has decline, the forecast states that growth is expected to increase and economic expansion would probably maintain the rate of growth of the economy next year and in 2008.

Summary Overview

In summary, Economic growth related to the third quarter of 2006 represented a decline from first quarter results. This decrease was not unexpected by economists, although the decrease was greater than initially anticipated. Surveys of private sector economists suggest GDP is projected to grow at a 2.5percent in the final quarter of 2006. In the first half of 2007, growth is expected to slow further to 2.7 percent. This deceleration in growth is expected to be partially due to a decline in the housing sector in 2006. Despite declining growth rates, the economists do not foresee a recession in the near future.

INDUSTRY REVIEW

Internet Advertising⁷

According to the Interactive Advertising Bureau ("IAB"), internet advertising revenues in the United States reached an estimated \$4.2 billion for the third quarter of 2006, which represents a 33.0 percent increase over the same quarter compared to 2005. Overall internet advertising revenues grew by 30.0 percent by the end of 2005 to total \$12.5 billion. More than \$5.1 billion of this spending was attributable to paid search ads, which is currently the fastest growing segment of online advertising. The consistent growth of online advertising is an indication that marketers continue to find internet advertising to be a vital advertising tool and that additional platforms such as broadband video, gaming, iPTV and others continue to emerge as future growth opportunities for the sector.

While search advertising remains the largest format in terms of revenues according to the IAB, new formats such as video advertisement are expected to grow faster, as advertisers seek to leverage the branding opportunities afforded by the growing installed base of broadband users.

⁷ Source: Interactive Advertising Bureau website: www.iab.net.



_

First \$ in millions First Half Half Percent Percent **Advertisement Format** 2005 of Total 2006 of Total Search \$2,315 40% \$3,164 40% Classifieds 1,014 18% 1,582 20% Referrals/Lead Generation 347 6% 592 7% E-mail 116 2% 158 2% Rich Media 463 8% 475 6% Ad Banners / Display Ads 1,157 1,622 20% 21% Sponsorships 317 5% 316 4% Slotting Fees 58 0% 1% **Total** \$5,787 100% \$7,910 100% **Source: Interactive**

Table 2
Internet Advertisement Revenues by Format Type

Internet Content⁸

Advertising Bureau

The Internet content services market in the U.S. has been growing in recent years. According to the Online Publishers Association and Comscore Networks, U.S. consumers paid \$2.0 billion for online content services in 2005, which represents an increase of 15.0 percent from the pervious year. The type of content commonly used by consumers is shifting. In 2005, consumers spent approximately \$570 million on the music, videos and leisure content, which is an increase of 38.8 percent from 2004.

Trends

A major issue among Internet content providers is whether to charge money for services or offer content for free in the hopes of attracting advertisers. For instance, CBS television network, allowed consumers to watch live games from the National Collegiate Athletic Association men's basketball tournament online free of charge; previous to this there was a charge for this service. However, CBS changed the approach because there were a large number of advertisers who were willing to sponsor the Webcasts. Apple, on the other hand, is positioning itself differently by focusing on the online music sector. Apple has commenced sale of digital downloads of content for view on its iPod devices.

Broadband technology is a major factor in the growth and success of the online content market. According to Leichtman Research Group, more than 60.0 percent of online subscribers use high-speed broadband, most of the usage being for downloading music and watching video online. At the end of the first quarter of 2006, 45.9 million subscribers in the U.S. had high-speed Internet access, an increase of 28.0 percent approximately from 35.8 million in 2004. The continued penetration of broadband is a key factor in increasing the number of people wanting to gain more access to the Web.

⁸ Source: Factiva.com: "Grouper to Host Seinfeld Promotions."



Lastly, e-Content through cellular phones is a growing trend in the market. The market for music downloads from the personal computer to a phone is already in existence. A major challenge, and therefore a high potential market, is now the usage of cellular network for music downloads.

Summary

The business of selling online content services such as music and video is still in the growth stage of its life cycle. More advertisers are moving towards generating business through the usage of the Internet in recent years. Consumers seem more willing to pay to watch videos, play games and listen to music online. However, business risks such as illegal file swapping can prove to be a major difficulty for this industry.

VALUATION OVERVIEW

The analysis performed will assist Management in its allocation of the price paid to the various classes of assets acquired for financial reporting purposes. In order to arrive at our estimates of value, we considered the three generally accepted approaches to valuation, commonly referred to as the:

- 1. Income Approach;
- 2. Market Approach; and
- 3. Cost Approach.

Within each approach, a variety of methodologies exist to assist in the estimation of fair value. The following sections contain a brief overview of the theoretical basis of each approach, as well as a discussion of the specific methodologies relevant to the analyses performed in this study.

Income Approach

The income approach is based on the premise that the value of an asset is the present value of the future earning capacity that is available for distribution to the owner of that asset. The most commonly used income approach for the valuation of individual assets is a discounted cash flow analysis. A discounted cash flow ("DCF") analysis involves forecasting an appropriate cash flow stream, over an appropriate period, and discounting it back to a present value at an appropriate discount rate. This discount rate should consider the time value of money, inflation and the risk inherent in ownership of the asset being valued.

Market Approach

In the market approach, recent sales and listings of comparable assets are gathered and analyzed. If necessary, adjustments are applied to these observations to recognize differences in characteristics between the subject assets and the comparable assets, so as to indicate a value for the subject asset. Use of this approach is limited in the case of intangible asset valuations as there are few such assets available in the "market".



Cost Approach

A third approach to value is the cost approach. The discrete valuation of an asset using a cost approach is based upon the concept of replacement cost as an indicator of value; i.e. a prudent investor would pay no more for an asset than the amount for which the asset could be replaced.

The cost approach establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional obsolescence, if present and measurable. This approach can be used to value intangible assets where it is possible to estimate the amount of funds necessary for replication, but asset-specific cash flows can not be developed.

Valuation Methods Applied

Based upon the nature of the Assets, all three approaches were considered; the income approach and the cost approaches were deemed most applicable to estimate the fair value of the identified intangible assets. The specific applications of the income approach employed include the relief of royalty method which was used to estimate the fair value of the trade name. The cost approach was utilized to estimate the fair value of the (i) software technology and (ii) marketing/development contracts.

Valuation Process

In order to value the Assets, a framework is first established for the overall return of the business and its individual assets. Thus to arrive at an indication of value for each identified intangible asset we took the following steps:

- 1. Calculated the internal rate of return ("IRR") expected by the actual buyer of Grouper based on the future cash flow projections provided by Management and the aggregate purchase price paid.
- 2. Compared the IRR with the estimated market participant discount rate to assess the reasonableness of the return for Grouper.
- 3. Estimated the value of the Assets acquired.
- 4. Assessed the overall reasonableness of the discount rate, IRR, and the weighted average return on assets (WARA).

INTERNAL RATE OF RETURN

In order to test the reasonableness of the projected cash flows used in the intangible asset valuation and estimate the required rates of return on the identified intangible assets, an internal rate of return calculation was performed using Management's forecast. This exercise estimates the required rate of return of the business enterprise which reconciles to the total invested capital of the acquired entity.

Forecast of Operations

Revenue and expense estimates and assumptions Grouper were provided by Management. Management expects revenue to be generated exclusively from advertising revenue, specifically from in-stream video



ads, banner ads, and sponsored search. Revenue growth is driven primarily by growth in unique users as projected CPMs ("Cost per Thousand") of online advertising were considered to be conservative.

The specifics of Management's forecast are as follows:

Revenue

The total revenue for Grouper is expected to grow from \$3.1 million in 2006 to \$115.2 million in 2011. The revenue growth begins in the discrete forecast period by increasing approximately five fold to \$18 million in 2007 from the \$3.1 million in 2006. This revenue growth rate then declines throughout the period to the point where in the year 2011, the revenue growth rate is 15%.

EBITDA Margin

The EBITDA margin is expected to be negative in the years 2006 and 2007. In 2008, the EBITDA margin is expected to increase to 25 percent. In the years 2009 through 2011, the EBITDA margins are projected to be 37 percent.

Income Taxes

The estimated tax rate was 40.0 percent based on the assumed market participant rate.

Capital Expenditure & Depreciation

Capital expenditures were estimated by Management to be \$2.0 million and remained constant through out the forecasted period. Management estimates to make annual investments primarily in computers, related software and servers, and minor office equipment to be able to continue regular operations. Depreciation expense is a direct result of the existing property, plant and equipment and the anticipated future capital expenditures.

Working Capital

Changes in working capital for Grouper were estimated to be zero throughout the forecast period. This assumption is consistent with information exhibited by the guideline companies.

Cash Flows during the Discrete Forecast Period

The cash flows that resulted from the above categories are outlined in **Exhibit 5**. The cash flows range from negative \$10.9 million in 2006 to \$24,.4 million in 2011. To verify the reasonableness of Management's estimates, we (i) analyzed Grouper's historical financial results, (ii) analyzed the projected growth and profitability in comparison with the industry⁹, (iii) analyzed general economic conditions and expectations, (iv) analyzed pricing metrics within the industry¹⁰, (v) read industry analyst reports for publicly traded Internet companies and (vi) held discussions with Management. Based on the information examined from the above sources, Management's forecast did not appear to be unreasonable.

We examined valuation multiples derived from comparable transactions. The pricing data were obtained from Venturesource.com, Nielson NetRatings, and Comscore MediaMetrix.



⁹ We compared Management's projections with consensus forecast of comparable companies within the industry based on information obtained from Capital IQ.

Terminal Value and Long Term Growth Rate

The terminal value represents the estimated value of a company's projected operating results after the end of the discrete forecast periods. It is calculated by dividing the debt-free net cash flow available for distribution in the terminal year ("CF_T") by an appropriate capitalization rate that assumes a constant growth rate into perpetuity. This calculation is known as the Constant Growth Model and is shown arithmetically below:

$$TV = \frac{CF_T}{K - g}$$

Where:

TV = Terminal Value

 CF_T = Net Cash Flow (normalized net cash flow)

K = Discount Rate

g = Estimated sustainable long term growth rate

In calculating the Company's terminal value, we utilized a long-term growth rate of 7.5 percent. The elements considered in developing the terminal growth rate for Grouper were historical industry growth, long-term economic growth expectations, 11 and implied long-term growth in cash flows estimated by analysts for guideline companies that operate within internet related businesses.

Internal Rate of Return Calculation

Our discounted cash flow analysis for Grouper is summarized in **Exhibit 6**. Based on the projected debt-free net cash flows ("DFNCF"), an internal rate of return ("IRR") of **26.2** percent was calculated, which results in a total invested capital value of Grouper of \$61.4 million (rounded). This total invested capital conclusion reasonably reconciles to the invested capital purchase price of \$61.4 million (excluding transaction costs) paid by SPE (see **Exhibit 10**).

DISCOUNT RATE DERIVATION

The magnitude of a discount rate is related to the perceived risk of an investment as well as current capital costs. The concept of risk involves an investment situation that lies between complete certainty of monetary return (no risk) and complete uncertainty of monetary return (infinite risk). When an investor contemplates two investments, each having the same expected monetary return; an investor would prefer the investment bearing the least risk. Therefore, the higher the risk, the higher the expected return.

Due to the start-up nature of Grouper, we researched industry and venture capital returns to gain a better understanding of the required return investors have for companies at early stages of development. According to the AICPA Practice Aid, typical stages of enterprise development are characterized by the following stages.¹²

¹² AICPA Practice Aid Series, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. Page 49.



¹¹ Source: Congressional Budget Office.

- **Start-up:** Start-up-stage investments typically are made in enterprises that are less than a year old. The venture funding is to be used substantially for product development, prototype testing, and test marketing.
- **First stage or "early development":** Early-development-stage investments are made in enterprises that have developed prototypes that appear viable and for which further technical risk is deemed minimal, although commercial risk may be significant.
- **Second stage or "expansion":** Enterprises in the expansion stage usually have shipped some product to consumers (including beta versions).
- **Bridge/IPO:** Bridge/IPO-stage financing covers such activities as pilot plant construction, production design, and production testing, as well as bridge financing in anticipation of a later IPO.

The AICPA task force has identified two publications that utilize the above framework and provide guidance about the rates of return expected by venture capital investors. A summary is set forth in below:

 Stage of Development
 Plummer¹³
 Scherlis and Sahlman¹⁴

 Start-up
 50% - 70%
 50% - 70%

 First stage or "early development"
 40% - 60%
 40% - 60%

 Second stage or "expansion"
 35% - 50%
 30% - 50%

 Bridge/IPO
 25% - 35%
 20% - 35%

Table 12: Venture Capital Rates of Return

As of the Valuation Date, Grouper had been operating for less than three years and only has \$6,000 in revenue. Based on this information and discussions with Management, we estimate that a market participant would require an equity rate of return of **40.0 percent** for the investment in Grouper based on the VC rates on Table 5 above (see **Exhibit 11**).

INTANGIBLE ASSETS - IDENTIFICATION

The identification of the intangible assets that are considered severable from the goodwill involves a facts and circumstances assessment of Grouper and the nature of its operations. Once identified, the approach used to value a specific intangible asset vary depending upon the nature of the asset, the nature of the operations in which it is utilized, and the economic returns it is generating or is expected to generate.

Potential intangible assets specific to Grouper were identified by Management through an assessment of the business operations, a review of supporting documentation and materials, and discussions with their auditors and Deloitte FAS. The table below lists the intangible assets that were considered and/or

¹⁴ 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.



¹³ Plummer, James L., *QED Report on Venture Capital Financial Analysis*, Palo Alto: QED Research, Inc., 1987.

ultimately valued in this analysis. This table was taken from the guidance set forth in SFAS 141, which establishes guidelines for identifying intangible assets that should be valued apart from the goodwill of a business.

Table 4 Intangible Assets for Consideration

Total Chile Access	Comments
Intangible Assets	Comments
Marketing Related	
Trademarks/Trade names	Valued as Grouper Trade Name
Service Marks, Collective marks, Certification marks	None identified
Trade dress (unique color, shape, package design)	None identified
Newspaper mastheads	None identified
Internet domain names	Valued with the Trade Name
Non-competition agreements	None identified
Customer-related	
Customer lists	None identified
Order of production backlog	None identified
Customer contracts and related customer relationships	Valued with the Marketing and Development Contracts
Non-contractual customer relationships	Non identified
Artistic-related	Non identified
	None identified
Plays, operas, ballets	
Books, magazines, newspaper, other literary works	None identified
Musical works (i.e. compositions, song lyrics, advertising jingles)	None identified
Pictures, photographs	None identified
Video and audiovisual material	None identified
Contract-based	
Licensing, royalty, standstill agreements	Non identified
Advertising, construction, management, service or supply contracts	Valued as Marketing and Development Contracts Management Deemed these contracts to be at market rates
Lease agreements	None identified
Construction permits	None identified
Franchise agreements	
Operating and broadcast rights	None identified
Use rights (drilling, water, air, etc.)	None identified
Servicing contracts (i.e. mortgage servicing contracts) Employment contracts	None identified Management Deemed these contracts to be at market rates.
	market fates.
Technology-based	None identified
Patented technology	
Computer software and mask works	Valued as Software Technology
Unpatented technology	None identified
Databases, including title plants	None identified
Trade secrets (i.e. secret formulas, process, recipes)	None identified
IPR&D	None identified



Pursuant to our research and discussions with Management, the following intangible assets were identified for investigation and possible valuation under SFAS 141:

- Grouper Trade Name
- Software Technology
- Marketing and Development Contracts

VALUATION ANALYSIS

Tangible Assets

Within the scope of this engagement Deloitte FAS was not engaged to estimate the fair value of the tangible and other assets acquired in the transaction. As a result, Management has estimated that book value reasonably approximates the fair value of all financial and tangible assets. As shown on **Exhibit 1**, financial and tangible assets consist of approximately \$119,000 in current assets and \$419,000 in fixed assets. As we understand, no real property was acquired in the transaction. Such values have been incorporated into this analysis without further investigation.

Trade Name

SPE acquired the names and marks ("Trade Name") associated with Grouper. As of the closing of the transaction, Grouper had been in operation for less than three years. Grouper's brand name, however, was perceived to be recognizable in the marketplace. Grouper is considered one of the larger independent video community sites, behind the market leader YouTube, with 7.0 million global unique users and 3.0 million users in the Unites States per month. As such, SPE intends to keep the "Grouper" name in their business operations beyond the foreseeable future. It should be noted that SPE at one point contemplated abandoning the Grouper name altogether, including the domain name. With that consideration mentioned, SPE currently plans to keep the trade name and the domain name. Management will be augmenting this trade name with numerous other names that it will develop in the future as a part of its overall corporate strategy.

Given its brand recognition in the marketplace and the current intentions of Management, the fair value of the Grouper Trade Name was estimated using the relief-from-royalty method. The relief-from-royalty method is a specific application of the discounted cash flow method under the income approach. The principle behind the relief-from-royalty method is that the value of an intangible asset is equal to the present value of the after-tax cash royalty savings attributable only to owning the asset as opposed to paying a third party for its use, plus the expected amortization tax benefit. The royalty savings were estimated at rate of 1.0 percent to the projected enterprise revenues for the Company (see **Exhibit 6**).

The selected royalty rate was estimated based on market research on licensing agreements in the internet related industries and discussions with Management. Our market research resulted in eight transactions involving internet related businesses. The identified transactions were then further screened to (i) include only transactions that involved the licensing of trademarks and related domain names and (ii) eliminate any transactions that involved additional assets such as "know-how." The screening procedure resulted in three transactions which were deemed to be most comparable. All three of the transactions indicated a royalty rate of 1.0 percent, with a high of 5.0 percent (see **Exhibit 7**). In selecting the appropriate rate, Deloitte FAS recognizes that Grouper is a start-up company and is still building its brand recognition. Additionally, unlike find.com or vitaminshoppe.com, which are listed in Exhibit 7, the "Grouper" name



does not have an immediate connotation to a product or service. As a result, we estimated an appropriate royalty rate at 1.0 percent.

The calculated royalty savings were then reduced by the costs incurred to maintain/protect the trade name, which were estimated based on the fully burdened salary of a marketing personnel provided by Management. To the royalty savings we applied taxes, discounted the cash flows to present value, and added a tax amortization benefit to estimate the fair value. Based on the analysis as described the estimated fair value of the Grouper Trade Name was \$900,000 (see **Exhibit 6**).

Software Technology

As part of the acquisition, SPE acquired the Grouper 2.0 software ("Software Technology"). The Grouper technology is a peer-to-peer (P2P) file transfer technology that allows Grouper users to download files directly from one or more users and upload files to one or more users simultaneously. This core technology is used by Grouper for distribution of large video files as well as file transfers in a private group setting. The technology has a number of benefits including:

- 1. <u>Unlimited Sharing:</u> Grouper users can share unlimited number of files without limitation on file size and download large files directly from other Grouper users.
- 2. <u>No Central Hosting:</u> Grouper.com does not need to centrally host shared files on its web servers. Files are served directly from the user(s) sharing them.
- 3. <u>Scalability:</u> Distributed downloads are more scalable compared to downloads from web or ftp server. With distributed downloads, several people can download the same large file over the Internet without hogging the server that initially made the file available and without consuming massive amount of bandwidth by the server. With distributed downloads, the bandwidth used to download a file is spread between all the PCs that have started to download the file.
- 4. <u>Faster Downloads</u>: Downloads of popular files are faster because the sum of the upstream bandwidth used for file transfers by the sources that have partially or completely downloaded the file is typically greater than the upstream bandwidth from a single file source.
- 5. <u>High Availability:</u> File availability is higher compared with the Grouper 1.0 file sharing technology, as the original file sharer doesn't need to be online for the file transfer to occur.

Given that the software can be replicated by computer programmers and engineers and the fact that the software is not sold as a product to customers (i.e. not a direct income producing asset), we have concluded that the income approach is not an applicable means to estimate the fair value this asset. In this case, we determined that the cost approach was the most appropriate way to value the technology. Under the cost approach, the valuation of an asset is based upon the concept of replacement or avoided cost as an indicator of value. The principle behind the cost approach is that the fair value of an asset should not exceed the cost to obtain a substitute asset of comparable features and functionality.

Based on information provided by Management, five employee levels, including a vice president, director, engineers, QA engineers, and system administrator, are required to recreate the specific technology. Each level of employee performs specific tasks at an estimated annual cost based on the time



required to recreate the technology. According to Management, a total of 19 employees were responsible for the development of the Software Technology:

- 1 Vice President
- 1 Director
- 10 Engineers
- 5 QA Engineers
- 2 System Administrators

Based on cost information provided by Management in the form of number of employees, time spent per employee, and average fully burdened salaries at employee levels, we estimated the fair value of the Software Technology to be \$4.1 million (see **Exhibit 8**).

Marketing and Development Contracts

Grouper is a media file-sharing company that operates user-generated video communities on the internet. The Company expects to generate revenue from online advertisements in the form of in-stream video ads, banner ads, and sponsored search. The Company entered into various one-year marketing and comarketing contracts with internet companies whereby Grouper's video technology is shared/integrated in other websites. This allows other website users to use the video technology while generating traffic for Grouper which ultimately equates to advertising revenue. As of the Valuation Date, the Company had Marketing and Development Contracts with five separate companies: (i) Pure Digital, Inc.; (ii) Buy.com, Inc.; (iii) Logitech, Inc.; (iv) Friendster, Inc.; and (v) Pseudo Entertainment, Inc. These contracts were deemed to have economic benefits to SPE. For the most part, these contracts provide additional user traffic and not additional revenue.

The Marketing and Development Contracts were valued using the cost approach due to the lack of operating history and revenues. According to Management, four employees were responsible for securing the Marketing and Development contracts:

- Co-President 1
- Co-President 2
- Vice President
- Director of Marketing

Based on cost information provided by Management in the form of average fully burdened salaries and the amount of time spent to secure one contract, we estimated the fair value of the Marketing and Development Contracts to be \$462,000 (see **Exhibit 9**).

WEIGHTED AVERAGE RETURN ON ASSETS & RECONCILIATION OF DISCOUNT RATES

A commonly performed analysis in conducting a purchase price allocation is the preparation of a weighted average return on assets ("WARA") for the assets acquired. This reconciliation is important because it verifies that the rates of return used to value the individually identified asset is in the aggregate and on a weighted average basis consistent with the market participant WACC for the business enterprise.



We employed the WACC as a baseline for establishing required rates of return for each individual identifiable asset. Assignment of rates of return to the various tangible and intangible assets is a "relative" analysis that reflects our assessment of the hierarchy of risk associated with each asset valued. This treatment follows from the premise that in general, monetary assets that are more liquid are less risky and therefore would require less of a return than illiquid fixed or intangible assets. As a result, outlined below is the WARA calculation: (see Table 6 and **Exhibit 10**).

Table 6
Weighted Average Return on Assets

Asset	After-tax Rate of Return	Weighted After-Tax Rate	
Net Working Capital	3.8%	0.0%	
PP&E	4.4%	0.0%	
Grouper - Trade Name	40.0%	0.6%	
Software Technology	40.0%	2.6%	
Marketing and Development Contracts	40.0%	0.3%	
Goodwill (including Workforce)	41.0%	37.6%	
Total/Weighted Average (rounded)		41.0%	

AICPA guidance suggests that there is a presumptive requirement for the approximate equivalency of the three elements of a purchase price allocation: the IRR, the WACC and the WARA. We view this presumption as rebuttable where specific facts or circumstances are articulated. Deloitte FAS assumes (unless otherwise demonstrated) that the buyer and seller were unrelated and acted at arm's length. Under that presumption, reconciliation of these three elements then provides additional support for an assertion that the valuation of the identified assets be at a marketplace participant level. In this situation, SPE purchased the assets of Grouper at an expected rate of return of 26.2 percent, which is less than the market participant WACC of 40 percent. Management has indicated that the acquisition of Grouper was consciously consummated at the purchase price and IRR of 26.2 percent for strategic purposes such that this acquisition would allow SPE to more fully drive its digital distribution strategy. In addition, there are only so many user generated content sites in existence and some of the more well known sites such as MySpace.com and YouTube.com were already acquired by competitors. As such, SPE management was willing to accept a lower rate of return on this particular acquisition in order to create synergistic value in the other areas of its business that Grouper on a stand alone basis or other potential buyers could not achieve.

GOODWILL AND ESTIMATED USEFUL LIVES OF INTANGIBLE ASSETS

Goodwill

According to SFAS 141 Appendix F, goodwill represents "the excess of the cost of an acquired entity over the net of the amounts assigned to the assets acquired and liabilities assumed." Using transaction related expenses and liabilities assumed as provided by Management, as well as the present value of earn-out payments, the total consideration paid for Grouper was \$62.7 million. From that amount, and after

¹⁵ AICPA, AICPA Fair Value Measurement Toolkit – Draft Report (Application of SFAS 141), Ex. 11 – 12.



deducting the fair value of the tangible and intangible assets acquired, the total goodwill acquired in the transaction is estimated based on a residual calculation to be \$57.5 million (see Table 7 and Exhibit 1).

Table 7
Allocation of Estimated Intangible Asset Fair Values and Goodwill

\$ in thousands		
Invested Capital of Acquired Entity		\$62,712
Assets Acquired:		
Net Working Capital	(\$700)	
Property & Equipment	419	
Grouper - Trade Name	900	
Software Technology	4,100	
Marketing and Development Contracts	462	
Total Allocated to Goodwill (Including Workforce)		\$57,531

Estimated Economic Life of the Intangible Assets

The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of each licensed property. Useful life ends when it is no longer profitable to use an asset (the future benefits are used up), or when it is more profitable to use another asset. This is quite different from the service life of an asset, which is the period from its installation to the date of its retirement, irrespective of its earnings capability. Estimating the remaining useful lives involves analyzing data surrounding the various intangible assets. In order to estimate the period of time that an intangible asset will benefit a company, SFAS 142 lists the following factors to consider:

- a. Expected use of the asset by the entity;
- b. Expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate;
- c. Legal, regulatory or contractual provisions, which may limit the useful life of an asset;
- d. Legal, regulatory or contractual provisions for renewal or extension of the useful life of an asset;
- e. Effects of obsolescence, demand, competition, and other economic factors;
- f. Expected actions of competitors and others;
- g. Level of maintenance expenditures required to obtain the expected future cash flows from the asset; and
- h. Pertinent factors regarding the intangible asset.

Based on these considerations and discussions with Grouper, the "Grouper" trade name is estimated to have an indefinite useful life.



The software technology is estimated to have a remaining useful life of five years. Lastly, the marketing and development contracts are estimated to have a useful life of approximately 0.37 years, the average expected remaining term of their contractual agreement (see **Exhibit 1** and Table 8).

Table 8
Estimated Useful Life of Intangible Assets

In years	Estimated Useful Life
Grouper - Trade Name	Indefinite
Software Technology	5
Marketing and Development Contracts	0.37
Goodwill (Including Workforce)	Indefinite





STATEMENT OF APPRAISAL ASSUMPTIONS AND LIMITING CONDITIONS

This valuation analysis has been prepared pursuant to the following general assumptions and general limiting conditions:

- We assume no responsibility for the legal description or matters including legal or title considerations.
 Title to the subject assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.
- The subject assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- 3. We assume responsible ownership and competent management with respect to the subject assets, properties, or business interests.
- 4. The information furnished by others is believed to be reliable. However, we issue no warranty or other form of assurance regarding its accuracy.
- 5. We assume that there is full compliance with all applicable Federal, state, and local regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
- 6. We assume that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, private entity or organization have been or can be obtained or renewed for any use on which the valuation opinion contained in this report is based.
- 7. Possession of this valuation opinion report, or a copy thereof, does not carry with it the right of publication or distribution to or use by any third party. It may not be used for any purpose by any person other than the party to whom it is addressed without our prior written consent. Use of this analysis by any third party is at the sole risk of that party who agrees to hold Deloitte Financial Advisory Services LLP harmless from any claims resulting from use by any third party. Access by any third party does not create privity between Deloitte Financial Advisory Services LLP and any third party.
- 8. We, by reason of this engagement, are not required to furnish a complete valuation report, or to give testimony, or to be in attendance in court with reference to the assets, properties, or business interests in question unless arrangements have been previously made.
- 9. To our best knowledge and belief, this analysis has been prepared in conformity with, and is subject to, the requirements of the code of professional ethics and standards of professional conduct of the professional appraisal organizations of which we are members.
- 10. No part of the contents of this report (especially any conclusions of value, the identity of the appraisers, or the firm with which the appraisers are associated) may be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and in the sole discretion of Deloitte Financial Advisory Services LLP.
- We assume no responsibility for any financial or tax reporting requirements, such reporting requirements are the responsibility of the client for whom this analysis was prepared.
- 12. The valuation analyses contained herein are valid only as of the indicated date and for the indicated purpose.



APPRAISAL CERTIFICATION

In compliance with the Uniform Standards of Professional Appraisal Practice ("USPAP") as set forth by the Appraisal Standards Board of the Appraisal Foundation, the undersigned hereby 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 are our personal, unbiased professional analyses, opinions, and conclusions;
- We have no present or prospective interest in the entity that is the subject of this report, and we have no personal interest or bias with respect to the parties involved;
- Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report;
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice; and
- No one provided significant professional assistance to those persons signing this
 report.
- The American Society of Appraisers has a mandatory recertification requirement. The ASA designated persons indicated below are in conformance with that requirement.

Nicholas M. Florio, ASA, CFA		J.D. Tengberg	
Principal	_	Senior Manager	
David Mao		Jose Guadarrama	
Senior Associate		Associate	



QUALIFICATIONS OF APPRAISERS

Nicholas M. Florio, ASA, CFA is a Principal (non-CPA Partner) in Deloitte Financial Advisory Services LLP specializing in the delivery of financial advisory, valuation and corporate finance related services. Mr. Florio specializes in financial valuation consulting and transaction facilitation where issues around the M&A process, financial structuring, value-based measurements, and operating and integration strategies require clarification, resolution, articulation or mediation. In this area he directs the valuation of businesses, equity interests or individual tangible and intangible/intellectual property assets as required. In addition, Mr. Florio is the Regional Managing Partner of the Financial Advisory Services group in the Firm's Pacific Southwest region and is the practice unit leader for the Valuation Group. Mr. Florio is a certified senior accredited appraiser (ASA) in Business Valuation and a Chartered Financial Analyst (CFA) and has over 28 years of valuation, engineering and management experience with a division of a Fortune 100 corporation, the Army Corps of Engineers, and Deloitte FAS.

Since joining Deloitte in 1984, Mr. Florio has performed valuations of companies, business interests, and tangible and intangible assets for transaction pricing and structuring (acquisitions, mergers, restructuring), Federal and state taxation, and litigation support, and has delivered speeches and written articles on valuation and depreciation related matters. Mr. Florio co-authored the book <u>Business Asset Valuation - Allocation and Recovery of Investment in Business Acquisitions</u>, published by Little, Brown and Company and has worked on valuations and depreciation studies in the aerospace/defense, financial services, hospitality and leisure, mortgage banking, food services, manufacturing, retail, communications and hi-tech industries.

Mr. Florio holds a Bachelor of Science degree in Industrial Engineering from Hofstra University. He also holds a Master's degree in Industrial Economics and Management from Columbia University and an Advanced Professional Certificate degree in Finance/Tax from New York University.

J.D. Tengberg is a Senior Manager in Deloitte Financial Advisory Services LLP's Valuation Services practice with significant expertise in the media and entertainment industries. Over the past decade, Mr. Tengberg has performed valuation work and financial analysis for a myriad of different purposes including: (i) transaction-related and advisory purposes, (ii) shareholder value and strategic analyses, (iii) tax-related issues, (iv) bankruptcy, (v) litigation, (vi) business plan development and (vii) financial reporting.

Mr. Tengberg has valued entire companies in many industries including: (i) film production and distribution, (ii) television production and distribution, (iii) post-production, (iv) television and radio broadcasting, (v) motion picture exhibition and (vi) cable networks. He has also valued and analyzed a myriad of different types of entertainment assets including:

- Film libraries,
- Music libraries;
- Current and future film slates,
- Television production and distribution rights,
- Theatrical ("Off-Broadway") production rights,
- Merchandising rights, and
- Screenplays.



Mr. Tengberg earned a Masters in Business Administration from the Anderson School at the University of California, Los Angeles and Bachelor of Science in Business-Finance from Brigham Young University.

David Mao is a Senior Associate with Deloitte Financial Advisory Services LLP specializing in financial valuation services. Mr. Mao has five years of experience performing valuations for a broad range of purposes including SFAS 141 & 142 compliance, Employee Stock Ownership Plans (ESOPs), gift and estate taxes, merger and acquisitions, and litigation support. Currently, Mr. Mao emphasizes in valuations for financial reporting purposes, including: SFAS 141, 142, and 123R compliance. Additionally, Mr. Mao provides support services to Deloitte & Touche LLP, performing fair value measurement and disclosure (SAS 101) reviews. Prior to joining Deloitte FAS, Mr. Mao was a senior analyst in the business valuation group of Gursey, Schneider & Co. LLP, a local CPA firm specializing in litigation services. Prior to working at Gursey, Mr. Mao was an analyst at Strategic Equity Group and a valuation consultant at CBIZ Valuation Group.

Mr. Mao holds a Bachelor of Science degree in Business Administration, with an emphasis in Accounting and Finance, from the University of California, Riverside. He is also a Level III candidate of the Chartered Financial Analyst Program and is working towards the Accredited Senior Appraiser designation.

Jose Guadarrama is an Associate in the Valuation Group of Deloitte Financial Advisory Services LLP specializing in business valuation services. Mr. Guadarrama has experience performing business and asset valuations for advisory and financial reporting purposes. Currently, Mr. Guadarrama emphasizes in valuations for financial reporting purposes, including: SFAS 141 and 142 compliance, SFAS 123R option valuation, and valuations of privately-held common and preferred stock. Additionally, Mr. Guadarrama provides assistance in audit support services to Deloitte & Touche LLP performing SAS 101 reviews of fair value estimates to be used in the financial statements of Deloitte & Touche audit clients.

Mr. Guadarrama holds a Bachelor of Science degree in Business Administration, with an emphasis in Finance and International Business, from Indiana University, Bloomington, IN.



EXHIBITS

Summary Allocation of Identified Assets	Exhibit	1
Contingency Summary	Exhibit	2
Historical Balance Sheets	Exhibit	3
Historical Income Statements	Exhibit	4
Internal Rate of Return (IRR)	Exhibit	5
Grouper - Trade Name	Exhibit	6
Licensing Summary - Trade Name	Exhibit	7
Software Technology	Exhibit	8
Marketing and Development Contracts	Exhibit	9
Weighted Average Return on Asset Reconciliation (WARA)	Exhibit	10
Weighted Average Cost of Capital (WACC)	Exhibit	11



Exhibit 1 Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition Summary Allocation of Identified Assets

Valuation as of August 21, 2006

DRAFT

\$ in thousands	Fair Value	
(a) Consideration Paid	\$52,500	
(b) Plus: Present Value of Earn-out	8,900	
(a) Plus: Transaction Costs	1,312	
(c) Plus: All Current Liabilities	819	
Total Asset Base to Allocate	\$63,530	
(c) Tangible Asset Allocation		
Cash and Cash Equivalents	\$81	
Accounts Receivable	25	
Other Current Assets	13	
Total Current Assets	\$119	
Fixed Assets (Net)	419	
Total Tangible Assets	\$538	Suggested
		Maximum Useful
(d) Intangible Asset Allocation	.	Life (Years)
Grouper - Trade Name	\$900	Indefinite
Software Technology	4,100	5.0
Marketing and Development Contracts	462	0.4
(e) Goodwill (Including Workforce)	57,531	Indefinite
Total Identified Intangible Assets	\$62,993	
Total Allocated to Tangible and Intangible Assets	\$63,530	
Concluded Goodwill	\$57,531	
Goodwill / Total Asset Base	90.6%	

- (a) Purchase price based on the Agreement and Plan of Merger dated August 21, 2006. Transaction related expenses was obtained from Company Disclosure letter dated August 21, 2006.
- (b) Earn-out consideration based on certain revenue and video stream target estimated to be paid in 2008 and 2009 was discounted to present value. See Exhibit 2.
- (c) Based on Management's representation that closing book values approximate fair value.
- (d) Refer to supporting schedules detailing analysis of each identified intangible asset.
- (e) Total asset base to allocate less the fair value of tangible assets, and identified intangibles.

Exhibit 2
Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition Contingency Summary

Valuation as of August 21, 2006

DRAFT

\$ in thousands					
	Payment Dates>	12/31/06	12/31/07	02/29/08	02/28/09
(a) Earn-out Payments		\$0	\$0	\$6,250	\$3,750
Discount Period		0.608	1.362	1.526	2.526
(b) Discount Factor at Cost of Debt	6.5%	0.9622	0.9174	0.9079	0.8521
Present Value		\$0	\$0	\$5,674	\$3,195
Sum of Present Values		\$8,870			
Present Value of Earn-out Payments (round)		\$8,900			

- (a) Earn-out consideration based on certain revenue and video stream target. Source: Internally prepared earn-out schedule provided by Management.
- (b) Based on Moody's Seasoned Baa rated Corporate Bond Indesx as of the Valuation date. Source: Federal Reserve.

Exhibit 3
Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition Historical Balance Sheets

Valuation as of August 21, 2006

DRAFT

	Historical Balance Sheet			
\$ in thousands	As of Decer	As of December 31,		
	2004	2005	08/21/06	
Assets				
Current Assets				
Cash and Cash Equivalents	\$228	\$1,657	\$81	
Accounts Receivable	0	0	25	
Other Current Assets	1	0	13	
Total Current Assets	229	1,657	119	
Property and Equipment, Net	68	162	419	
Other Non-current Assets	3	3	C	
Total Assets	\$300	\$1,822	\$538	
Liabilities And Stockholders' Equity				
Accounts Payable	\$0	\$0	\$232	
Credit Cards	0	4	36	
Other Current Liabilities	0	0	550	
Total Current Liabilities	0	4	819	
Stockholders' Equity				
Capital Stock	\$1,298	\$5,069	\$5,076	
Common Stock	0	3	C	
Other Comprehensive Income (Loss)	(998)	(2,254)	(2,048	
Retained Earnings	0	(998)	(3,309	
Total Stockholders' Equity	300	1,819	(281	
Total Liabilities & Stockholders' Equity	\$300	\$1,822	\$538	

Source: Grouper Networks, Inc. unaudited financial statements provided by management.

Exhibit 4 Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition Historical Income Statements

Valuation as of August 21, 2006 DRAFT

	Historical Income Statements						
\$ in thousands	Years Ended De	5 Months					
	2004	2005	05/31/06				
Revenue	\$0	\$0	\$6				
Operating Expenses (Excluding Depreciation)	1,003	2,276	1,249				
EBITDA	(1,003)	(2,276)	(1,243)				
Depreciation and Amortization	0	0	0				
EBIT	(1,003)	(2,276)	(1,243)				
Interest Expense (Income)	(4)	(22)	(13)				
Other Expense (Income)	0	0	0				
EBT	(998)	(2,253)	(1,230)				
Taxes	0	1	2				
Net Income	(\$998)	(\$2,254)	(\$1,232)				

Source: Grouper Networks, Inc. unaudited financial statements provided by management.

Exhibit 5
Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition
Internal Rate of Return (IRR)
Valuation as of August 21, 2006

\$ in thousands		Projected for Fiscal Years End March 31,						
		2006	2007	2008	2009	2010	2011	Year
Revenues								
In-Stream		\$1,420	\$10,060	\$28,250	\$43,020	\$51,624	\$59,368	
Banner / Ad-words		1,180	5,660	12,800	20,990	25,188	28,966	
Sponsored Search	_	470	2,868	10,446	19,504	23,405	26,915	
(a) Total Revenues	-	\$3,070	\$18,588	\$51,496	\$83,514	\$100,217	\$115,249	\$123,893
(a) Total Cost of Goods Sold	-	1,680	7,000	15,130	22,820	27,384	31,492	
Gross Profit		1,390	11,588	36,366	60,694	72,833	83,757	
(a) Total Operating Expenses	-	10,250	18,820	23,280	29,800	35,760	41,124	
EBITDA		(8,860)	(7,232)	13,086	30,894	37.073	42,633	
EBITDA Margin		-289%	-39%	25%	37%	37%	37%	
(b) Depreciation & Amortization Expense		432	832	1,232	1,632	2,032	2,000	
as % of revenues		14%	4%	2%	2%	2,032	2%	
as 70 of revenues	-	1470	470	270	270	270	270	
EBIT		(9,292)	(8,064)	11,854	29,261	35,040	40,633	
(c) Tax Expense	40.0%	0	0	0	8,602	14,016	16,253	
Debt-Free Net Income	-	(\$9,292)	(\$8,064)	\$11,854	\$20,659	\$21,024	\$24,380	\$26,209
Cash Flow Adjustments						21.0%	21.2%	21.2%
Debt-Free Net Income		(9,292)	(8,064)	11,854	20,659	21,024	24,380	26,209
(b) Add: Depreciation & Amortization		432	832	1,232	1,632	2,032	2,000	2,150
(d) Less: Capital Expenditures		(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,150)
(e) Less: Change in Debt-Free Working Capital		0	0	0	0	0	0	0
Debt-Free Net Cash Flow		(\$10,860)	(\$9,232)	\$11,086	\$20,292	\$21,057	\$24,380	\$26,209
Present Value Calculation								
Capitalization Rate (r-g), where $r = 26.2\%$ and $g = 10$	7.5%							18.7%
Terminal Value							_	\$139,796
Discount Period		0.304	1.108	2.108	3.108	4.108	5.108	5.108
Internal Rate of Return (IRR)	26.2%	0.9316	0.7724	0.6118	0.4846	0.3838	0.3040	0.3040
Partial Period Adjustment		0.6082	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Present Value	-	(\$6,153)	(\$7,130)	\$6,782	\$9,833	\$8,082	\$7,412	\$42,503
(g) Long term growth rate	7.5%							
Present Value of Interim Cash Flows		\$18,827	Γ		25.2%	26.2%	27.2%	
Present Value of Residual		42,503		6.5%	63,900	58,900	54,800	
Cash and Equivalents	_	81		7.5%	66,800	61,400	57,000	
	-			8.5%	70,100	64,200	59,500	
Estimated Total Investment Capital (rounded)		\$61,400	_					

- (a) Valuation assumptions and projections through out the forecasted period are based on Management's forecast.
- (b) Projected depreciation was estimated assumming a 5-year life for existing assets and new acquisitions.
- (c) Tax rate is based on the blended state and federal tax rate for C-Corporations.
- (d) Capital Expenditures are estimated at \$2.0 million per year based on Management Projections through out the forecasted period.
- (e) Debt-Free Working Capital (excluding cash) is estimated to be zero based on consideration of working levels exhibited by guideline companies.
- (g) Long term growth assuption is based on consideration of long-term economic growth expectations and implied long-term growth rates exhibited by guideline companies.

Exhibit 6
Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition
Grouper - Trade Name
Valuation as of August 21, 2006

				Projected for F	iscal Year End M	Iarch 31,			
\$ in thousands	Calendar Ye	ear> 2006	2007	2008	2009	2010	2011	Terminal	
(a) Revenues		\$3,070	\$18,588	\$51,496	\$83,514	\$100,217	\$115,249	\$123,893	
(b) Royalty Rate		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%		
Royalty Savings		\$31	\$186	\$515	\$835	\$1,002	\$1,152		
(c) Trade Name Maintenance Costs		105	108	111	115	118	122		
Inflation Factor			3.0%	3.0%	3.0%	3.0%	3.0%		
Pre-Tax Royalty Savings		(74)	78	404	720	884	1,031		
Tax Expense	40.0%	0	31	161	288	354	412		
After-tax Royalty Savings		(74)	47	242	432	530	618	665	
Capitalized at (r-g), where $r = 40.0\%$ and $g = 7.5\%$								32.5%	
Terminal Value								2,046	
Discount Period		0.304	1.108	2.108	3.108	4.108	5.108	5.108	
Discount Factor	40.0%	0.9027	0.6887	0.4920	0.3514	0.2510	0.1793	0.1793	
Partial Period Adjustment		0.6082	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
Terminal Year Growth	7.5%								
PV after tax cash flow and terminal value		(\$41)	\$32	\$119	\$152	\$133	\$111	\$367	
PV of Discreet Cash Flow	\$506								

I v of Discreet Cash I low	\$500
PV of Terminal Value	367
Plus: Amortization Tax Benefit	74
Subtotal	\$947

Estimated Value, Tradename \$900	Estimated	Value, Tradename	\$900
----------------------------------	-----------	------------------	-------

Notes:

- (a) Represents total company revenue. See Exhibit 5.
- (b) Selected royalty rate based on consideration of trademark/trade name licensing transactions. See Exhibit 7.
- (c) Maintenance cost is estimated at the fully burdened salary for one marketing employee.

DRAFT

	TIME TO THE TIME T				ALTY RATE	
(a) DATE	LICENSEE	LICENSOR	SUMMARY	LOW	HIGH	
Nov-03	Manhattan Assets Inc	Communicate.com	In September 2003, Canadian company sold four domain names to a u. S. Company with royalties to be paid on the gross sales generated from each one. The names are as follows: automobile.com, exercise.com, body.com and makeup.com. Additional information in may 2004 indicates that the automobile.com portal has been launched and licensor will receive royalties on this new b2c portal.	5.0%	5.0%	
2 Dec-99	Find.com Inc	Find/SVP Inc	This trademark license and domain name assignment agreement is entered into as of December, 1999. Pursuant to the collaboration agreement, by entering into this license agreement, find/svp is (a) granting to find.com the exclusive perpetual license to use and sublicense the licensed mark (as definerein) within the territory (as defined herein), including the right to use the licensed mark, or any part thereof, as a corporate name, and (b) assigning to find.com the find.com domain name (as defined herein).	1.0%	1.0%	
Nov-99	LearningExpress.com LLC	Learning Express Inc	This license agreement, dated as of November 5, 1999. The company licenses the learning express name, image, methods, manuals, procedures and "look and feel" components to learning express.com llc for use in operation and promotion of the online store.	3.0%	3.0%	
4 Aug-99	ValueClick Europe Limited	ValueClick Inc	This license agreement is entered into as of this 17th day of august, 1999. The company hereby grants an exclusive, non-transferable, perpetual license to use, offer, market, promote, modify and exploit the intellectual property in connection with the vceu network in the territory; network means a global internet advertising network consisting of websites upon which valueclick is permitted to place advertising, including, but not limited to, banner advertisements, the advertising sales activity; various proprietary technologies and materials relating to an internet advertising network.	5.0%	5.0%	
5 Jul-99	Vitamin Shoppe Com Inc	The Vitamin Shoppe	Effective July 1, 1999, we have licensed the vitamin Shoppe logo and name and certain other marks, including vitaminshoppe.com, on an exclusive basis for use in connection with our marketing and sale of products and services in online commerce. We offer an extensive selection of vitamins, nutritional supplements and minerals and a comprehensive line of herbal formulas, homeopathic products, personal care items, body building supplements, healthcare products and books on health and nutrition.	1.0%	5.0%	
Jan-99	Sports line USA Inc	CBS Broadcasting Inc	Amendment to agreement, effective as of January 1, 1999, to original dated march 5, 1997. The company has entered into an agreement for licensing right to cbs sports content such as live and archival audio and video, statistics and historical data relating to sports events and personalities and live, real-time internet-broadcast.	12.0%	15.0%	
Jan-97	Go2Net	Netbot Inc	On January 31, 1997, the companies entered into the metacrawler license agreement pursuant to which the licensor granted an exclusive (subject to certain limited exceptions), worldwide license to provide the metacrawler service (including, without limitation, the exclusive right to use, modify and reproduce the name "metacrawler" and the metacrawler url in connection with the operation of the metacrawler service - metacrawler search engine).	7.5%	7.5%	
8 NA	Infoseek Corp	Walt Disney Co	The company granted to licensee a worldwide license to utilize the trademarks, service marks and world wide web addresses and domain names associated with the new portal service and the copyrights in the user interface design of the new portal service in connection with the development, operation and exploitation of the new portal service; new internet portal service to be named go network(tm) (the "new portal service").	1.0%	1.0%	

	All Transactions	Most Comparable
Low	1.0%	1.0%
High	15.0%	5.0%
Median	7.5%	1.0%
Mean	7.3%	1.7%

(b)	Selected Trade Name Royalty Rate	1.0%

Source: RoyaltySouce.Com Intellectual Property Database.

 ⁽a) Royalties expressed as percentage of sales, unless stated otherwise. Calculation of royalty data performed using only royalty rates expressed as percentage of sales.
 Search criteria included a textual description for royalty rates associated with trade names in the Internet Content industry.

⁽b) Based upon our review, the Find.com, VitaminShoppe.Com, and Infoseek Corp transactions (bold above) are most comparable as they are (i) focused on Internet related businesses, (ii) involve the licensing of trademarks and related domain names, and (iii) exclude additional assets such as "know-how."

Exhibit 8 Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition Software Technology

Valuation as of August 21, 2006

DRAFT

\$ in thousands

Recreation Cost of Software Technology	Fully				Total
	Loaded	% of Time	Annual	Number of	Annual
	Annual	Developing	Cost Per	Employees	Recreation
Employee	Salary	Software	Employee	Required	Cost
Vice President	\$240	100%	\$240	1	\$240
Director	180	100%	180	1	180
Engineers	156	100%	156	10	1,560
QA Engineers	84	100%	84	5	420
System Administrative	156	100%	156	2	312
Total Annual Recreation Cost	\$2,712				
Total Recreation Cost per Hour	\$1.30)			
Hours Required to Recreate Software (1.5 years)	3,120	_			
Estimated Cost to Recreate Software	\$4,068				
Estimated Fair Value, Software Technology (rounded)	\$4,100	1			

Notes:

(a) Estimates provided by Management.

DRAFT

\$ in thousands

Recreation Cost of Marketing Contracts			Fully	Percentage of		Time	Total
	Avg.		Burdened	Time Spent on	Annual	to Secure One	Cost to
	Annual	Benefit	Annual	Relationship	Cost Per	Contract	Secure One
Employee	Salary	Load	Salary	Management (f)	Employee	(Years)	Contract
Co-President 1	\$300	28.6%	\$386	25%	\$96	0.25	\$24
Co-President 2	300	28.6%	386	25%	96	0.25	24
VP Partnerships	161	26.0%	203	25%	51	0.25	13
Director of Marketing & Communications	100	26.0%	126	100%	126	0.25	32
Total						=	\$92

	Total
	Cost to
	Secure
Marketing Contracts	Contracts
(a) Pure Digital, Inc.	\$92
(b) Buy.com, Inc.	92
(c) Logitech, Inc.	92
(d) Friendster, Inc.	92
(e) Pseudo Entertainment, Inc	92
Estimated Fair Value, Marketing Contracts (rounded)	\$462

- (a) Grouper and Pure Digital established an exclusive relationship whereby the parties work together to integrate aspects of Grouper's video upload and sharing functionality services into the Pure Digital software. The agreement commenced on June 21, 2006 and has a one-year term with automatic renewals for succesive one year.
- (b) Grouper and Buy.com, Inc. established an exclusive relationship whereby the parties work together to provide a version of Grouper's video technology services to Buy.com's end users to allow the users to upload their own video reviews of producst and view other product reviews. The agreement commenced on April 17, 2006 and has a one-year term with automatic renewals for successive one year.
- (c) Grouper and Logitech, Inc enter into a non-exclusive agreement to participate in a co-marketing activity with respect to the Grouper Blogging services with certain Logitech internet communication products. The agreement was entered into at June 7, 2006, and has a term of 13 months, with automatic one-year renewals.
- (d) Grouper and Friendster enter into an exclusive distribution and integration agreement for their social networking and file sharing offerings on August 24, 2005. The term of the agreement is for one year, thereafter the agreement automatically renews for successive one year.
- (e) As of July 19, 2006, Grouper established a relationship Pseudo Entertainment to provide a version of Grouper's video technology services to Pseudo. The term of the agreement is one year with an option to renew every year.
- (f) Management estimates that the Co-Presidents and VP of Partnerships spend approximately 25% of their time to secure a marketing and devleopment contract.

Exhibit 10
Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition
Weighted Average Return on Asset Reconciliation (WARA)

Valuation as of August 21, 2006

	\$ in thousands		Valuation Date Balances	Percent of Total	Pre-Tax Rate of Return	After-Tax Rate of Return	Weighted Rate of Return	% of Total WACC
	Estimated Tax Rate	40.0%						
	Consideration Paid		\$52,500					
	Plus: Present Value of Earnout		8,900					
	Plus: Transaction Costs		1,312					
	Invested Capital of Acquired Entity		\$62,712					
	Required Return On Assets							
	Net Working Capital		(\$700)	-1.1%	6.3%	3.8% (b)	0.0%	-0.1%
	PP&E		419	0.7%	7.3%	4.4% (c)	0.0%	0.1%
	Grouper - Trade Name		900	1.4%	66.7%	40.0% (d)	0.6%	1.4%
	Software Technology		4,100	6.5%	66.7%	40.0% (d)	2.6%	6.4%
	Marketing and Development Contracts		462	0.7%	66.7%	40.0% (d)	0.3%	0.7%
(a)	Goodwill (including Workforce)		57,531	91.7%	68.3%	41.0% (d)	37.6%	91.6%
	Total Allocation		\$62,712	100.0%				100.0%
	Weighted Individual Asset Returns (rounded)						41.0%	
(e)	Weighted Average Cost of Capital (rounded)						40.0%	
. ,	IRR from BEV						26.2%	

- (a) Pursuent to SFAS 141, the value of the workforce is not recognized as a separate intangible asset apart from goodwill.
- (b) U.S. bank prime lending rate as of the Valuation Date. Source: Federal Reserve Board.
- (c) After-tax estimated return is a 75/25 blend of the cost of debt and cost of equity.
- (d) The selected rates of return on intangible assets are based on the derived risk and the relative return requirements for each contributing asset.
- (e) Based on venture capital returns published in the AICPA Practice Aid. See Exhibit 11.

Exhibit 11 Sony Pictures Entertainment - Grouper Networks, Inc. Acquisition Weighted Average Cost of Capital (WACC)

Valuation as of August 21, 2006

D	R	41	Ψ'	Г

Stage of		Scherlis and
Devlopment	Plummer (a)	Sahlman (b)
Start-up	50% - 70%	50% - 70%
First stage or "early development"	40% - 60%	40% - 60%
Second stage or "expansion"	35% - 50%	30% - 50%
Bridge/IPO	25% - 35%	20% - 35%

Selected Weighted Average Cost of Capital (c)	40%
---	-----

- (a) Based on Plummer, James L., QED Report on Venture Capital Financial Analysis, Palo Alto: QED Research, Inc., 1987.
- (b) Based on 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.
- (c) As of the Valuation Date, Grouper had been operating for less than three years and only has \$6,000 in revenue. Considerating the development stage and discussions with Management, we estimate that a market participant would require a return of 40.0% for an investment in Grouper.