

**CONFIDENTIAL INFORMATION****BuzzFeed, Inc. & Subsidiaries****Consolidated Financial Statements****Jan-Jun 2014 YTD (Draft Unaudited)*****Consolidated Balance Sheets***

<b>Assets</b>	<b>As of 6/30/14</b>
Current Assets	
Cash, cash equivalents, and marketable securities	\$ 22,261,774
Accounts receivable, net	27,696,792
Prepaid and other current assets	1,027,874
Total Current Assets	50,986,441
Property and equipment, net	3,345,246
Other assets	1,593,730
Total Assets	<u>\$ 55,925,417</u>
<b>Liabilities and Stockholders' Equity</b>	
Current Liabilities	
Accounts payable	\$ 2,077,293
Accrued expenses and other current liabilities	5,882,841
Deferred obligation	433,202
Total liabilities	8,393,337
Stockholders' Equity	47,532,080
Total liabilities and stockholders' equity	<u>\$ 55,925,417</u>

***Consolidated Statements of Operations***

	<b>YTD 2014</b>
Revenue	\$ 46,159,098
Cost of revenue	-
Selling, general and administrative	5,818,808
Editorial	20,983,958
Research and development	10,449,422
Depreciation and amortization	5,602,235
Total operating expenses	669,368
Loss from operations	43,523,791
Other income, net	2,635,307
Income from operations before income taxes	112,710
Income tax provision	2,748,017
Net Loss	-
	<u>\$ 2,748,017</u>

**CONFIDENTIAL INFORMATION**

**CONFIDENTIAL INFORMATION****BuzzFeed, Inc. & Subsidiaries****Consolidated Financial Statements****Jan-Jun 2014 YTD (Draft Unaudited)*****Consolidated Statements of Cash Flows***

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	<b>YTD 2014</b>
<b>Operating Activities</b>	
Net loss	\$ 2,748,017
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	669,368
Stock-based compensation	368,788
Asset Impairment	-
Changes in operating assets and liabilities:	
Accounts receivable, net	(1,252,061)
Other current assets	(427,161)
Other long term assets	(249,671)
Accounts payable	(1,606)
Accrued expenses and other current liabilities	1,350,928
Deferred obligation	(372,610)
Cash used in operating activities	<u>2,833,993</u>
<b>Investing Activities</b>	
Capital Expenditures	(1,298,989)
Cash inflows related to acquisitions	-
Cash from (used in) investing activities	<u>(1,298,989)</u>
<b>Financing Activities</b>	
Preferred stock issuance, net of issuance costs	(0)
Proceeds from exercise of stock options	125,688
Cash from financing activities	<u>125,688</u>
 Increase (decrease) in cash and equivalents	 1,660,692
Cash and equivalents at beginning of period	20,601,082
Cash and equivalents at end of period	<u><u>\$ 22,261,774</u></u>

**CONFIDENTIAL INFORMATION**

**BuzzFeed, Inc.**  
**Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**BuzzFeed, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 20,601,209	\$ 21,212,509
Marketable securities	-	6,993,560
Accounts receivable	26,444,731	8,275,790
Prepaid and other current assets	616,724	122,809
Total current assets	47,662,664	36,604,668
Property and equipment, net	2,714,141	1,026,165
Other assets	1,332,199	484,044
Total assets	<u>\$ 51,709,004</u>	<u>\$ 38,114,877</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 3,301,357	\$ 1,151,663
Accrued expenses and other current liabilities	4,640,197	1,268,608
Deferred revenue	613,537	286,885
Total current liabilities	8,555,091	2,707,156
Total liabilities	8,555,091	2,707,156
Commitments and contingencies (Note 6)		
Stockholders' equity		
Series A, convertible preferred stock, \$0.001 par value; 3,500,000 shares authorized; 3,500,000 shares issued and outstanding at December 31, 2013 and 2012	3,000,500	3,000,500
Series A-1, convertible preferred stock, \$0.001 par value; 3,800,515 shares authorized; 3,800,515 shares issued and outstanding at December 31, 2013 and 2012	3,801	3,801
Series B, convertible preferred stock, \$0.001 par value; 4,401,242 shares authorized; 4,401,242 shares issued and outstanding at December 31, 2013 and 2012	7,904,463	7,904,463
Series C, convertible preferred stock, \$0.001 par value; 5,024,637 shares authorized; 5,024,637 shares issued and outstanding at December 31, 2013 and 2012	15,434,047	15,434,047
Series D, convertible preferred stock, \$0.001 par value; 2,412,718 shares authorized; 2,412,718 shares issued and outstanding at December 31, 2013 and 2012	19,310,914	19,310,914
Common stock, \$0.001 par value. 25,000,000 shares authorized at December 31, 2013 and 2012; 2,463,631 and 1,619,539 shares issued and outstanding at December 31, 2013 and 2012, respectively	2,464	1,620
Additional paid-in capital	1,467,002	762,465
Accumulated other comprehensive income	2,090	-
Accumulated deficit	(3,971,368)	(11,010,089)
Total stockholders' equity	43,153,913	35,407,721
Total liabilities and stockholders' equity	<u>\$ 51,709,004</u>	<u>\$ 38,114,877</u>

The accompanying notes are an integral part of these consolidated financial statements.

**BuzzFeed, Inc.****Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**Period Ended December 31, 2013 and 2012**

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	<u>2013</u>	<u>2012</u>
<b>Statements of Operations</b>		
Revenue	\$ 64,095,207	\$ 20,333,560
Cost of revenue	9,907,232	3,627,594
Selling, general and administrative	27,048,071	12,603,079
Editorial	11,739,790	4,724,608
Research and development	5,957,456	3,111,993
Depreciation and amortization	733,512	292,547
Total operating expenses	<u>55,386,061</u>	<u>24,359,821</u>
Income (loss) from operations	8,709,146	(4,026,261)
Other income (expense), net	<u>(25,295)</u>	<u>182</u>
Income (loss) before income taxes	8,683,851	(4,026,079)
Income tax provision	<u>(1,645,130)</u>	<u>-</u>
Net income (loss)	<u>\$ 7,038,721</u>	<u>\$ (4,026,079)</u>
 <b>Statements of Comprehensive Income (Loss)</b>		
Net income (loss)	\$ 7,038,721	\$ (4,026,079)
Other comprehensive income (loss)		
Foreign currency translation adjustment	<u>2,090</u>	<u>-</u>
Comprehensive income (loss)	<u>\$ 7,040,811</u>	<u>\$ (4,026,079)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**BuzzFeed, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2013, 2012, and 2011**

	<b>Convertible Preferred Stock</b>		<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>paid-in capital</b>	<b>deficit</b>	<b>other comprehensive income</b>	<b>Stockholders' Equity</b>
<b>Balance at December 31, 2011</b>	16,726,394	\$ 26,342,811	664,678	\$ 665	\$ 197,375	\$ (6,984,010)		\$ 19,556,841
Net loss						(4,026,079)		(4,026,079)
Stock-based compensation expense					139,510			139,510
Issuance of Series D preferred stock convertible preferred stock at \$8.0283 per share, net of \$59,106 issuance cost	2,412,718	19,310,914						19,310,914
Issuance of common stock upon exercise of stock options			784,996	785	289,858			290,643
Issuance of common stock in connection with acquisitions			169,865	170	135,722			135,892
<b>Balance at December 31, 2012</b>	19,139,112	45,653,725	1,619,539	1,620	762,465	(11,010,089)	-	35,407,721
Net income						7,038,721		7,038,721
Stock-based compensation expense					289,735			289,735
Issuance of common stock upon exercise of stock options			844,092	844	414,802			415,646
Foreign currency translation adjustment							2,090	2,090
<b>Balance at December 31, 2013</b>	19,139,112	\$ 45,653,725	2,463,631	\$ 2,464	\$ 1,467,002	\$ (3,971,368)	\$ 2,090	\$ 43,153,913

The accompanying notes are an integral part of these consolidated financial statements.

**BuzzFeed, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

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	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net loss	\$ 7,038,721	\$ (4,026,079)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	733,512	292,547
Stock-based compensation	289,735	139,510
Loss on disposition of fixed assets	115,210	-
Provision for doubtful accounts	97,952	-
Asset impairment	-	52,056
Changes in operating assets and liabilities:		
Accounts receivable	(18,266,893)	(6,486,256)
Other current assets	(493,915)	(89,333)
Other long term assets	(848,155)	(115,274)
Accounts payable	2,149,694	834,243
Accrued expenses and other current liabilities	3,371,583	884,020
Deferred revenue	326,652	286,885
Cash used in operating activities	(5,485,904)	(8,227,681)
<b>Investing activities</b>		
Capital expenditures	(2,536,692)	(788,566)
Cash inflows related to acquisitions	-	135,011
Purchases of marketable securities	-	(6,993,560)
Proceeds from sales of marketable securities	6,993,560	-
Cash provided by (used in) investing activities	4,456,868	(7,647,115)
<b>Financing activities</b>		
Preferred stock issuance, net of issuance costs	-	19,310,914
Proceeds from exercise of stock options	309,208	290,643
Proceeds from the early exercise of stock options	106,438	-
Cash provided by financing activities	415,646	19,601,557
Increase (decrease) in cash and equivalents	(613,390)	3,726,761
Effect of currency translation on cash and cash equivalents	2,090	-
Cash and equivalents at beginning of period	21,212,509	17,485,748
Cash and equivalents at end of period	\$ 20,601,209	\$ 21,212,509
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for income taxes	\$ 70,537	\$ -
Non-cash financing activity		
Common stock issued related to acquisition	\$ -	\$ 135,892

The accompanying notes are an integral part of these consolidated financial statements.

# **BuzzFeed, Inc.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2013 and 2012**

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#### **1. Description of the Business**

BuzzFeed, Inc. (formerly known as Contagious Media LLC) was incorporated in Delaware on June 24, 2008. BuzzFeed, Inc. and subsidiaries (the "Company" or "BuzzFeed") is a media company that is redefining online advertising with its social, content-driven publishing technology. BuzzFeed provides the most shareable breaking news, original reporting, entertainment, and video across the social web to its global audience. The company derives its revenue primarily from social content advertising sold to leading brands.

BuzzFeed, Inc. holds 100% of the outstanding shares of BF Acquisition Holding Corp., a Delaware company, which holds all of the outstanding shares of Ze Frank Games, Inc. and Kingfish Labs, Inc. BuzzFeed, Inc. also holds 100% of the outstanding shares of BuzzFeed UK Limited, a United Kingdom company, and BuzzFeed Pty Limited, an Australia company.

On July 28, 2014, the Company issued 1,605,982 shares of Series E convertible preferred stock for gross proceeds of \$50,000,001 (refer to Note 8). Management believes that these proceeds together with existing capital resources will be sufficient to support the Company's operations beyond the next twelve months. The Company may need to raise additional capital in the future to achieve its business objectives. There is no assurance that the company will be successful in obtaining funding, or whether any funding from either an equity or debt financing would be available on reasonable terms, if at all.

The Company is subject to additional business and market risks and uncertainties including, but not limited to, variability and uncertainty of revenue and operating results, the continued risk of development and acceptance of additional products or services, intellectual property and related risks, dependence on key personnel and the impact of potential competition from other companies.

#### **2. Summary of Significant Accounting Policies**

##### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of BuzzFeed Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported results of operations during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for deferred income tax assets, and valuation of common stock and share-based compensation. Actual results could differ from those estimates.

##### **Fair Value Measurements**

The fair value framework under the applicable authoritative guidance requires the categorization of assets and liabilities into three levels:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2—inputs other than quoted prices included within Level 1 that are either directly or indirectly observable



**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
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- Level 3—unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties. The carrying amounts of cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued expenses and other current liabilities and deferred obligations approximate fair value. Marketable securities are categorized as Level 1. The Company currently has no other financial assets or liabilities that are measured at fair value.

The Company's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial asset for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value.

**Cash and Cash Equivalents and Marketable Securities**

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents. The Company considers instruments with an original maturity of three months or less at the date of purchase to be cash equivalents. The Company's cash and cash equivalents consist of demand deposits with financial institutions. The associated risk of concentration is mitigated by banking with creditworthy institutions.

The Company invests its excess cash in liquid debt instruments of the U.S. government. Investments with maturities of less than 12 months from the balance sheet date are classified as short-term investments.

**Accounts Receivable and Allowance for Doubtful Accounts**

The Company's accounts receivable are customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts if required. The Company determines its allowance for doubtful accounts based on the evaluation of the aging of its accounts receivable and on a customer-by-customer analysis of its high-risk customers. The Company's reserve contemplates its historical loss rate on receivables, specific customer situations and the economic environments in which the Company operates. As of December 31, 2013 and 2012, the Company did not require an allowance for doubtful accounts.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. The estimated useful lives of property and equipment include: furniture and fixtures – 5 years; computer equipment – 3 years; and software – 3 years.

**Website and Internal Use Software Development Costs**

The Company capitalizes certain costs incurred for development of websites or software for internal use. The Company capitalizes development costs when preliminary developments efforts are successfully completed, management has authorized and committed project funding and it is probable that the project will be completed and the software will be used as intended. Costs include payroll and payroll-related costs of employees directly associated with the development activities. Costs incurred for enhancements that are expected to result in additional features or functionality

# **BuzzFeed, Inc.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2013 and 2012**

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are capitalized and expensed over the estimated useful life of the enhancements, generally one to three years. Costs incurred in the preliminary and post-implementation stages of the Company's products are expensed as incurred.

During the years ended December 31, 2013 and 2012, the Company capitalized \$424,990 and \$192,848, respectively, included in property and equipment and amortized \$220,054 and \$112,661, respectively, included in depreciation and amortization expense.

#### **Evaluation of Long-Lived Assets and Impairment**

The Company reviews its property and equipment, and internal-use software systems subject to amortization, for impairment, when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by the asset to its carrying value. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques which may include discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

#### **Revenue Recognition**

The Company generates revenue principally from advertising across BuzzFeed properties. Additionally, the Company generates revenue from other sources including video production and managing customers' advertising campaigns on third party websites and platforms.

Advertising revenue are recognized when the related advertising services are delivered based on the specific terms of the advertising contract, and are commonly based on the number of ads delivered, views, impressions, clicks or actions by users on advertisements. The Company recognizes revenue based on these terms because the services have been provided, the fees the Company charges are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured. In addition to the above revenue recognition criteria, video license revenue is recognized when the video is complete, has been delivered or is available for immediate and unconditional delivery; and the license period of the arrangement has commenced and the customer can begin the video's exploitation, exhibition or sale. Revenues are deferred upon receipt of cash in advance of performance.

In the normal course of business, the Company acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance are individually considered presumptive or determinative, because the Company is the primary obligor and is responsible for (i) identifying and contracting with third-party advertisers, (ii) establishing the selling prices of the advertisements sold, (iii) performing all billing and collection activities including retaining credit risk and (iv) bearing sole responsibility for fulfillment of the advertising, the Company acts as the principal in these arrangements and therefore reports revenue earned and costs incurred on a gross basis.

#### **Cost of Revenue**

Cost of revenue consists primarily of amounts due to third party websites and platforms to fulfill customers' advertising campaigns. Additionally, web hosting and advertising serving platform costs are included in cost of revenue.

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**Selling, General and Administrative**

Selling, general and administrative expense consists primarily of compensation-related expenses for sales, marketing, creative, and corporate employees. Also, it consists of expense for travel, marketing, facilities, professional services fees, insurance costs, and other general overhead costs.

**Editorial**

Editorial expenses consist primarily of compensation-related expenses and related travel and image licensing costs incurred for the publishing of editorial content across all platforms.

**Research and Development**

Research and development expenses consist primarily of compensation-related expenses incurred for the development of, enhancements to and maintenance of the Company's website, technology platforms and infrastructure. Certain development expenses have been capitalized under the provisions of the applicable authoritative guidance, whereby the Company capitalizes costs associated with website and internal-use software systems that have reached the application development stage.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months from December 31, 2013.

**Stock-Based Compensation**

Stock-based compensation is recognized as an expense in the financial statements and is measured at the fair value of the award. The Company recognizes compensation expense for stock awards based on grant date fair value using the Black-Scholes option-pricing model.

Stock-based compensation cost for employees included in net loss amounted to \$289,735 and \$139,510 for the years ended December 31, 2013 and 2012, respectively. The Company recognized no income tax benefit in the consolidated statements of operations for stock-based compensation arrangements in 2013 and 2012.

**BuzzFeed, Inc.**  
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The following table summarizes share-based compensation cost included in the consolidated statements of operations:

	<b>Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Selling, general and administrative	\$ 159,017	\$ 94,250
Editorial	66,129	29,756
Research and development	64,589	15,504
	<u>\$ 289,735</u>	<u>\$ 139,510</u>

**Comprehensive Income (Loss)**

Comprehensive income (loss) includes certain changes in stockholders' equity that are excluded from net income (loss) such as cumulative foreign currency translation adjustments and unrealized gains or losses on marketable securities.

**Recently Issued Accounting Standards**

In February 2013, the Financial Accounting Standards Board ("FASB") issued accounting guidance on the reporting of reclassification out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amount is required. The Company's adoption of this guidance on January 2, 2013 did not have a material effect on the Company's financial condition or results of operations.

In May 2014, FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. The new standard requires companies to recognize revenue for the transfer of goods and services to customers in amounts that reflect the consideration the company expects to receive in exchange for those goods and services. The new standard will also result in enhanced disclosures about revenue. This standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and can be adopted either retrospectively or as a cumulative-effect adjustment. Early adoption is prohibited. We are assessing the impact the adoption of this standard will have on our consolidated financial statements and disclosures.

**3. Marketable Securities**

Marketable securities as of December 31, 2013 and 2012 consisted of the following:

	<b>2013</b>		<b>2012</b>	
	<b>Amortized Cost</b>	<b>Level 1 Fair Value</b>	<b>Amortized Cost</b>	<b>Level 1 Fair Value</b>
U.S. Treasuries	\$ -	\$ -	\$ 6,993,560	\$ 6,993,560

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**4. Property and Equipment, net**

Property and equipment as of December 31, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Furniture and fixtures	\$ 814,753	\$ 148,755
Leasehold improvements	593,344	283,841
Computer equipment	1,447,877	617,042
Software	103,561	9,157
Website and internal-use software	924,675	499,683
	<u>3,884,210</u>	<u>1,558,478</u>
Less: Accumulated depreciation and amortization	(1,170,069)	(532,313)
	<u>\$ 2,714,141</u>	<u>\$ 1,026,165</u>

Depreciation and amortization expense was \$733,512 and \$292,547 for the years ended December 31, 2013 and 2012, respectively. During 2013 the Company disposed equipment resulting in a loss of \$115,209.

**5. Accrued Expenses and Other Current Liabilities**

Accrued expenses at December 31, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Employee-related accruals	\$ 3,538,680	\$ 1,041,150
Other accrued expenses	995,080	227,458
Other current liabilities	106,437	-
	<u>\$ 4,640,197</u>	<u>\$ 1,268,608</u>

**6. Commitments and Contingencies**

The Company leases office space under non-cancelable operating leases with various expiration dates through 2019. Rent expense for the years ended December 31, 2013 and 2012 was \$2,384,813 and \$675,691 respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2013 are as follows:

2014	\$ 3,780,398
2015	3,760,640
2016	383,701
2017	309,426
2018	318,709
Thereafter	244,370
	<u>\$ 8,797,244</u>

Effective April 2014, the Company entered into a lease agreement for office space and video production facilities in Los Angeles under an operating lease which generally expires in February

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2016. Total payments due under the lease agreement are expected to be approximately \$1.9 million. The lease contains an annual escalation clause, renewal provisions and generally requires the Company to pay utilities, insurance, taxes and other operating expenses.

There are no legal proceedings to which the Company is a party that are reasonably expected to be material to the Company's business or financial condition. From time to time, the Company may be involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries may increase as the Company's business expands. Any claims or regulatory actions against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

**Indemnification Provisions**

In the ordinary course of business, the Company has included limited indemnification provisions in certain agreements with parties with whom the Company has commercial relations. Under these contracts, the Company generally indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to the Company's domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to its performance under the subject agreement. It is not possible to determine the maximum potential loss under these indemnification provisions due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, no significant costs have been incurred, either individually or collectively, in connection with the Company's indemnification provisions.

**7. Debt Instruments**

On July 23, 2012 the Company entered into a loan agreement ("Loan Agreement") with Silicon Valley Bank to provide the Company a revolving line of credit with a variable interest rate and other bank facilities upon the Company's request.

The revolving line of credit was increased to \$15 million on November 18, 2013 and subsequently to \$25 million on July 17, 2014. If certain financial covenants are not met, the amount of borrowings available under the revolving line of credit is based on the Company's eligible accounts receivable balance at such time. The amounts borrowed are collateralized by the Company's personal property (including such accounts receivable but excluding intellectual property). As of December 31, 2013 and 2012, the Company did not have outstanding borrowings against the facility.

The aggregate amount available to be used for bank facilities including letters of credit, foreign exchange contracts and cash management services was increased to \$15 million on July 17, 2014. As of December 31, 2013, the Company held a letter of credit for \$1.1 million which represented security deposits in the Company's New York office location.

The Loan Agreement includes contain covenants that, among other things, require us to maintain minimum levels of consolidated tangible net worth and certain liquidity ratios. The Company is in compliance with all covenants.

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**8. Stockholders' Equity**

**Convertible Preferred Stock**

Series	Year Issued	Shares		Price	Liquidation Value
		Authorized	Issued and Outstanding		
Series A-1	2008	3,800,515	3,800,515	\$ 0.1579	\$ 600,101
Series A	2008	3,500,000	3,500,000	1.0000	3,500,000
Series B	2010	4,401,242	4,401,242	1.8177	8,000,138
Series C	2011	5,024,637	5,024,637	3.0848	15,500,000
Series D	2012	2,412,718	2,412,718	8.0283	19,370,024
		<u>19,139,112</u>	<u>19,139,112</u>		<u>\$ 46,970,263</u>

On July 28, 2014, the Company issued 1,605,982 shares of Series E convertible preferred stock at a purchase price of \$31.1336 per share for proceeds of \$50,000,001. The terms and conditions of the outstanding and issued shares reflect any changes effective with the execution of the Series E financing on July 28, 2014.

On December 19, 2012, the Company issued 2,412,718 shares of Series D convertible preferred stock at a purchase price of \$8.0283 per share for net proceeds of \$19,310,914 (net of issuance costs of \$59,110).

***Voting Rights***

Each share of the Company's preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such share of preferred stock could be converted. Each share of common stock is entitled to one vote.

***Dividends***

Holders of shares of the Company's preferred stock are entitled to receive noncumulative annual dividends at a rate of 8% of the applicable original issue price when, as and if declared by the Company's board of directors, prior and in preference to any dividends on shares of the Company's common stock. The Company has not declared or paid any cash dividends.

***Conversion***

Shares of the Company's preferred stock are convertible at the option of the holders into shares of the Company's common stock. Each share of preferred stock is convertible, without payment of additional consideration by the holder, into such number of fully paid and non-assessable shares of common stock as is determined by dividing the adjusted original issue price by the conversion price applicable to such share.

Each share of preferred stock will be automatically converted based on its conversion ratio into shares of common stock upon the earlier of the occurrence of a qualified initial public offering, as defined, or the vote of the holders of a majority of the outstanding Series A, B, C and D preferred stock (voting together as a single class and on an as-converted basis), the holders of a majority of the outstanding Series C and D preferred stock (voting together as a single class and on an as-converted basis), and the holders of a majority of the outstanding Series E preferred stock (voting together as a separate class).

**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

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***Liquidation Preference***

In the event of any liquidation, dissolution or winding up of the Company, including a deemed liquidation event, as defined, the holders of Series A, B, C, D and E preferred stock shall be entitled to receive, on a *pari passu* basis and in preference to all other holders of capital stock of the Company, pro rata, an amount equal to the respective purchase price plus declared and unpaid dividends on each share of Series A, B, C, D and E preferred stock. Next, if proceeds remain, the holders of Series A-1 preferred stock shall be entitled to receive, in preference to holders of common stock, an amount equal to the purchase price plus declared but unpaid dividends on each share of Series A-1 preferred stock. After the payment of such preferential amounts, any remaining proceeds shall be distributed pro rata among the holders of common stock. If the proceeds are insufficient to permit payment in full to all holders of Series A, B, C, D and E preferred stock, the assets shall be distributed ratably to the holders of the Series A, B, C, D and E preferred stock in proportion to the amount each such holder would otherwise be entitled to receive.

***Redemption***

In accordance with the terms of the Series E agreement, the preferred stock is not redeemable and any redemption rights under the previous agreements for Series A, B, C and D preferred stock have been canceled.

***Stock Option Plan***

The Company's 2008 Stock Plan (the "Plan") was adopted on June 25, 2008. The Plan allows for the grant of incentive and nonqualified stock options and restricted stock to eligible participants. Options are generally granted for a term of 10 years from the date of grant. Options granted under the Plan may be exercised prior to vesting. Stock options generally vest over four years.

On December 17, 2012, the Stock Plan was amended to increase the maximum number of shares of common stock available for issuance by 395,255. At December 31, 2013 and 2012, there were 400,126 and 1,158,206 shares available for future issuances under the Plan.

The fair value of stock option awards are estimated on the date of grant using the Black-Scholes option-pricing model based upon the following range of assumptions:

	<b>2013</b>	<b>2012</b>
Fair value common stock	<b>\$2.36 - \$3.20</b>	<b>\$.80</b>
Expected dividend yield	<b>-</b>	<b>-</b>
Expected volatility	<b>46% - 49%</b>	<b>47% - 48%</b>
Expected term (years)	<b>5.23 - 6.08</b>	<b>5.51 - 6.42</b>
Risk free interest rate	<b>.79% - 1.78%</b>	<b>.82% - 1.24%</b>

The Company uses the simplified method in accordance with the applicable authoritative guidance to estimate the expected term of the option, due to the limited historical experience to date. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Since the Company's common stock is not publicly traded for a sufficient time period, the expected volatility is based on expected volatilities of similar companies that have a history of being publicly traded. No dividends have been assumed. Share-based compensation expense is reduced by estimated forfeitures.



**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

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A summary of the share activity under the Plan is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value
Balance as of December 31, 2012	2,293,891	\$ 0.55	7.8	\$ 4,162,439
Granted	851,831	2.76		
Exercised	(1,000,380)	0.52		
Forfeited	(80,226)	1.87		
Expired	(13,316)	0.53		
Balance as of December 31, 2013	2,051,800	\$ 1.42	7.9	\$ 3,646,382
Expected to vest at December 31, 2013	1,713,125	\$ 1.38	7.8	\$ 3,123,821
Exercisable at December 31, 2013	845,280	\$ 0.52	6.5	\$ 2,263,409

The number of shares exercised in the year ended December 31, 2013 included shares exercised prior to vesting which are not considered "issued" in accordance with authoritative accounting literature. As of December 31, 2013, the Company received proceeds of \$106,438 for the early exercise of 156,288 shares not yet vested which is included as a liability. Amounts are reclassified to equity upon vesting.

The total fair value of vested stock options was \$202,854 and \$132,813 for the years ended December 31, 2013 and 2012, respectively.

As of December 31, 2013 there was \$1,150,794 of total remaining unrecognized stock-based compensation cost expected to be recognized over the weighted-average remaining requisite service period of 3.1 years. The weighted average fair value of stock options granted during December 31, 2013 and 2012 was \$1.28 and \$0.37, respectively. The intrinsic value of stock options exercised was \$1,998,122 and \$318,188 for the years ended December 31, 2013 and 2012, respectively.

The Company currently uses authorized and unissued shares to satisfy share award exercises.

## 9. Income Taxes

In assessing the realizability of the Company's deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management's assessment is based on the weight of available evidence, including cumulative losses since inception and expected future losses and as such, management does not believe it is more likely than not that the deferred tax assets will be realized. Accordingly, a full valuation allowance has been established and no deferred tax assets and related tax benefit have been recognized in the accompanying financial statements. As of December 31, 2013 and 2012, deferred tax assets were fully offset by a valuation allowance of \$1,732,841 and \$5,181,543, respectively. The decrease of \$3,448,702 in the valuation allowance was primarily attributable to the utilization of net operating losses to offset taxable income for the year ended December 31, 2013.

**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

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Significant components of deferred tax assets and liabilities at December 31, 2013 and 2012 were as follows:

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred tax assets:		
Net operating losses carryforwards	\$ 2,085,870	\$ 5,169,178
Accruals	132,622	52,995
Depreciation and amortization	-	138,780
Bad debt	29,540	-
Deferred revenue	130,380	-
Other	7,091	4,807
Total deferred tax assets	2,385,503	5,365,760
Valuation allowance	(1,732,841)	(5,181,543)
Net deferred tax assets	652,662	184,217
Deferred tax liabilities:		
Depreciation and amortization	(213,360)	-
Loss on disposals	(37,660)	-
Intangible assets	(401,642)	(184,217)
Total deferred tax liabilities	(652,662)	(184,217)
Net deferred tax liability	\$ -	\$ -

As a result of a cumulative change in stock ownership occurring in a prior year, as of December 31, 2013, approximately \$4.9 million of the federal net operating loss ("NOL") carryforwards are subject to annual limitations under Internal Revenue Code ("IRC") Section 382. The federal NOL carryforwards will be made available for utilization over the period from 2014 to 2028. As of December 31, 2013 and 2012, the Company had federal net operating losses of approximately \$0 and \$11,602,697 to offset taxable income.

In addition, the Company had net operating loss carryforwards for state income tax purposes of approximately \$83,618 and \$1,224,261 as of December 31, 2013 and 2012, respectively, which expire, if not utilized, beginning in the year 2028.

As of December 31, 2013, the Company has federal NOL carryforwards of approximately \$550,000 attributable to excess tax deductions from stock option exercises. The benefit of these NOLs, which are not reflected in the deferred asset schedule, will be credited to additional paid in capital when NOLs are utilized.

In accordance with the Company's accounting policy, it recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes.

The Company is subject to taxation in the United States and various other state and local jurisdictions. The Company is subject to examination dating back to 2009.

**10. Subsequent Events**

The Company has evaluated subsequent events through September 30, 2014, the date the consolidated financial statements available for issuance. There were no material subsequent events through the date of this report which have not already been reflected or disclosed in the consolidated financial statements.

**BuzzFeed, Inc.**  
**Consolidated Financial Statements**  
**December 31, 2012 and 2011**

**BuzzFeed, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2012 and 2011**

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,212,509	\$ 17,485,748
Marketable securities	6,993,560	-
Accounts receivable	8,275,790	1,789,534
Prepaid and other current assets	122,809	33,476
<b>Total Current Assets</b>	<b>36,604,668</b>	<b>19,308,758</b>
Property and equipment, net	1,026,165	530,146
Other assets	484,044	368,770
<b>Total Assets</b>	<b>\$ 38,114,877</b>	<b>\$ 20,207,674</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,151,663	\$ 276,419
Accrued expenses and other current liabilities	1,268,608	374,414
Deferred obligation	286,885	-
<b>Total current liabilities</b>	<b>2,707,156</b>	<b>650,833</b>
<b>Total liabilities</b>	<b>2,707,156</b>	<b>650,833</b>
<b>Commitments and Contingencies (Note 6)</b>		
<b>Stockholders' Equity</b>		
Series A, convertible preferred stock, \$0.001 par value; 3,500,000 shares authorized; 3,500,000 shares issued and outstanding at December 31, 2012 and 2011	3,000,500	3,000,500
Series A-1, convertible preferred stock, \$0.001 par value; 3,800,515 shares authorized; 3,800,515 shares issued and outstanding at December 31, 2012 and 2011	3,801	3,801
Series B, convertible preferred stock, \$0.001 par value; 4,401,242 shares authorized; 4,401,242 shares issued and outstanding at December 31, 2012 and 2011	7,904,463	7,904,463
Series C, convertible preferred stock, \$0.001 par value; 5,024,637 shares authorized; 5,024,637 shares issued and outstanding at December 31, 2012 and 2011	15,434,047	15,434,047
Series D, convertible preferred stock, \$0.001 par value; 2,412,718 shares authorized; 2,412,718 and 0 shares issued and outstanding at December 31, 2012 and 2011, respectively	19,310,914	-
Common Stock, \$0.001 par value. 25,000,000 and 23,000,000 shares authorized at December 31, 2012 and 2011, respectively; 1,619,539 and 664,678 shares issued and outstanding at December 31, 2012 and 2011, respectively	1,620	665
Additional paid-in capital	762,465	197,375
Accumulated deficit	(11,010,089)	(6,984,010)
<b>Total stockholders' equity</b>	<b>35,407,721</b>	<b>19,556,841</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,114,877</b>	<b>\$ 20,207,674</b>

The accompanying notes are an integral part of these consolidated financial statements.

**BuzzFeed, Inc.**  
**Consolidated Statements of Operations**  
**Period Ended December 31, 2012 and 2011**

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	<b>2012</b>	<b>2011</b>
Revenue	<b>\$ 20,333,560</b>	<b>\$ 4,127,935</b>
Cost of revenue (exclusive of depreciation and amortization shown below)	<b>3,627,594</b>	<b>662,436</b>
Selling, general and administrative	<b>12,603,079</b>	<b>4,082,005</b>
Editorial	<b>4,724,608</b>	<b>858,780</b>
Research and development	<b>3,111,993</b>	<b>1,688,428</b>
Depreciation and amortization	<b>292,547</b>	<b>194,786</b>
Total operating expenses	<b>24,359,821</b>	<b>7,486,435</b>
Loss from operations	<b>(4,026,261)</b>	<b>(3,358,500)</b>
Other income, net	<b>182</b>	<b>8,759</b>
Loss from operations before income taxes	<b>(4,026,079)</b>	<b>(3,349,741)</b>
Income tax provision	<b>-</b>	<b>-</b>
Net Loss	<b>\$ (4,026,079)</b>	<b>\$ (3,349,741)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**BuzzFeed, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Period Ended December 31, 2012 and 2011**

	<b>Convertible Preferred Stock</b>		<b>Common Stock</b>		<b>Additional paid-in capital</b>	<b>Accumulated deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>			
<b>Balance at December 31, 2010</b>	11,701,757	\$ 10,908,764	654,678	\$ 655	\$ 112,091	\$ (3,634,269)	\$ 7,387,241
<b>Net Loss</b>						(3,349,741)	(3,349,741)
<b>Stock-based compensation expense</b>					82,794		82,794
<b>Shares issued in connection with:</b>							
<b>Issuance of Series C preferred stock convertible preferred stock at \$3.0848 per share, net of \$65,929 issuance cost</b>	5,024,637	15,434,047					15,434,047
<b>Exercise of stock options</b>			10,000	10	2,490		2,500
<b>Balance at December 31, 2011</b>	16,726,394	26,342,811	664,678	665	197,375	(6,984,010)	19,556,841
<b>Net Loss</b>						(4,026,079)	(4,026,079)
<b>Stock-based compensation expense</b>					139,510		139,510
<b>Shares issued in connection with:</b>							
<b>Issuance of Series D preferred stock convertible preferred stock at \$8.0283 per share, net of \$59,106 issuance cost</b>	2,412,718	19,310,914					19,310,914
<b>Exercise of stock options</b>			784,996	785	289,858		290,643
<b>Issuance of common stock in connection with acquisitions</b>			169,865	170	135,722		135,892
<b>Balance at December 31, 2012</b>	19,139,112	\$ 45,653,725	1,619,539	\$ 1,620	\$ 762,465	\$ (11,010,089)	\$ 35,407,721

The accompanying notes are an integral part of these consolidated financial statements.

**BuzzFeed, Inc.**  
**Consolidated Statements of Cash Flows**  
**Period Ended December 31, 2012 and 2011**

	2012	2011
<b>Operating Activities</b>		
Net loss	\$ (4,026,079)	\$ (3,349,741)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	292,547	194,786
Stock-based compensation	139,510	82,794
Asset impairment	52,056	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,486,256)	(1,435,426)
Other current assets	(89,333)	88,862
Other long term assets	(115,274)	(282,125)
Accounts payable	834,243	211,885
Accrued expenses and other current liabilities	884,020	298,393
Deferred obligation	286,885	-
Cash used in operating activities	<u>(8,227,681)</u>	<u>(4,190,572)</u>
<b>Investing Activities</b>		
Capital Expenditures	(788,566)	(468,125)
Cash inflows related to acquisitions	135,011	-
Purchases of marketable securities	(6,993,560)	(3,598,935)
Proceeds from sales of marketable securities	-	6,597,054
Cash from (used in) investing activities	<u>(7,647,115)</u>	<u>2,529,994</u>
<b>Financing Activities</b>		
Preferred stock issuance, net of issuance costs	19,310,914	15,434,047
Proceeds from exercise of stock options	290,643	2,500
Cash from financing activities	<u>19,601,557</u>	<u>15,436,547</u>
Increase (decrease) in cash and equivalents	3,726,761	13,775,969
Cash and equivalents at beginning of period	17,485,748	3,709,779
Cash and equivalents at end of period	<u>\$ 21,212,509</u>	<u>\$ 17,485,748</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for		
Income Taxes	\$ -	\$ -
Interest	\$ -	\$ -
Non-cash financing activity		
Common stock issued related to acquisition	\$ 135,892	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

# **BuzzFeed, Inc.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2012 and 2011**

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#### **1. Description of the Business**

BuzzFeed, Inc. (formerly known as Contagious Media LLC) was incorporated in Delaware on June 24, 2008. BuzzFeed, Inc. and subsidiaries (the "Company" or "BuzzFeed") is a media company for the social age, focused on delivering high-quality original reporting, insight, and viral content across a rapidly expanding array of subject areas. The Company's technology powers the social distribution of content, detects what is trending on the web, and connects people in real-time with content of the moment. The company derives its revenue from social content advertising sold to leading brands.

BuzzFeed, Inc. holds 100% of the outstanding shares of BF Acquisition Holding Corp., a Delaware company, which holds all of the outstanding shares of Ze Frank Games, Inc. and Kingfish Labs, Inc. BuzzFeed, Inc. holds 100% of the outstanding shares of BuzzFeed UK Limited, a United Kingdom company. There was no activity in BuzzFeed UK Limited in 2012.

The Company incurred losses of \$4,026,079 for the year ended December 31, 2012 and has an accumulated deficit of \$11,010,089 as of December 31, 2012 and may continue to incur losses for the foreseeable future. The Company has historically financed its operations through equity financings and management may continue such financing in the future.

On December 19, 2012 the Company issued 2,412,718 shares of Series D convertible preferred stock at a purchase price of \$8.0283 per share for aggregate proceeds of \$19,310,914 (net of issuance costs of \$59,106). Management of the Company believes that these proceeds are sufficient to fund the capital needs of the Company and the Company will continue as a going concern through at least December 31, 2013. The Company may need to raise additional capital in the future to achieve its business objectives; however there can be no assurance that any such additional financing will be available.

The Company is subject to additional business and market risks and uncertainties including, but not limited to, variability and uncertainty of revenue and operating results, the continued risk of development and acceptance of additional products or services, intellectual property and related risks, dependence on key personnel and the impact of potential competition from other companies.

#### **2. Summary of Significant Accounting Policies**

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported results of operations during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, valuation allowances for deferred income tax assets, and valuation of common stock and share-based compensation. Actual results could differ from those estimates.

##### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of BuzzFeed Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.



**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2012 and 2011**

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***Fair Value Measurements***

The fair value framework under the Financial Accounting Standards Board ("FASB") guidance requires the categorization of assets and liabilities into three levels: Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2—inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and Level 3—unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties. Cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued expenses and other current liabilities and deferred obligation carrying amounts approximate fair value. Marketable securities are categorized as Level 1. The Company currently has no other financial assets or liabilities that are measured at fair value.

The Company's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial asset for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value.

**Cash and Cash Equivalents and Marketable Securities**

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents. The Company considers instruments with a maturity of three months or less at the date of purchase to be cash equivalents. The Company's cash and cash equivalents consist of demand deposits with financial institutions. The associated risk of concentration is mitigated by banking with creditworthy institutions.

The Company invests its excess cash in liquid debt instruments of the U.S. government. All investments with an original maturity of three months or less are considered cash equivalents. Investments with maturities of less than 12 months from the balance sheet date are classified as current assets. Investments with maturities greater than 12 months from the balance sheet date are classified as long-term assets.

**Restricted Cash**

The Company had restricted cash amounts of \$428,726 and \$325,911 at December 31, 2012 and 2011, respectively, recorded in other assets, which represented security deposits in the Company's office locations.

**Accounts Receivable and Allowance for Doubtful Accounts**

The Company's accounts receivable are customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts if required. The Company determines its allowance for doubtful accounts based on the evaluation of the aging of its accounts receivable and on a customer-by-customer analysis of its high-risk customers. The Company's reserve contemplates its historical loss rate on receivables, specific customer situations and the economic environments in which the Company operates. As of December 31, 2012 and December 31, 2011, the Company recorded an allowance for doubtful accounts of \$0 and \$0, respectively.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization.

**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2012 and 2011**

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Depreciation and amortization on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful life of property and equipment ranges from 3 to 5 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets.

**Capitalized Internal Use Software**

The Company accounts for the cost of computer software developed for internal use by capitalizing qualifying costs, which are incurred during the application development stage, and amortizing them over the software's estimated useful life. Costs incurred in the preliminary and post-implementation stages of the Company's products are expensed as incurred. The amounts capitalized include payroll and payroll-related costs of employees directly associated with the development activities. The Company amortizes capitalized software over the expected period of benefit, which is three years, beginning when the software is ready for its intended use. For the years ended December 31, 2012 and 2011, the Company had gross capitalized costs of \$192,848 and \$165,456, respectively, which are included in property and equipment and amortization expense of \$112,661 and \$67,620, respectively, which is included in depreciation and amortization expense. Unamortized software costs were \$310,485 and \$230,297 for the years ended December 31, 2012 and 2011, respectively. The Company's policy is to amortize such capitalized costs using the straight-line method over the estimated useful life of 3 years.

**Evaluation of Long-Lived Assets and Impairment**

The Company reviews its property and equipment, and capitalized internal-use software systems subject to amortization, for impairment, when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by the asset to its carrying value. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

**Revenue Recognition**

The Company generates revenue principally from advertising on the BuzzFeed website. Additionally, the Company generates revenue from other sources including managing customers' advertising campaigns on third party websites and platforms.

Revenues are recognized when the related advertising services are delivered based on the specific terms of the advertising contract, and are commonly based on the number of ads delivered, views, clicks or actions by users on advertisements. The Company recognizes revenue based on these terms because the services have been provided, the fees the Company charges are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

In the normal course of business, the Company acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance are individually considered presumptive or determinative, because the Company is the primary obligor and is responsible for (i) identifying and contracting with third-party advertisers, (ii) establishing the selling prices of the advertisements sold, (iii) performing all billing and collection activities including retaining credit risk and (iv) bearing sole responsibility for

**BuzzFeed, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2012 and 2011**

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fulfillment of the advertising, the Company acts as the principal in these arrangements and therefore reports revenue earned and costs incurred on a gross basis.

**Deferred Obligation**

As of December 31, 2012 and December 31, 2011, there was \$286,885 and \$0, respectively, of services for which cash payments were received in advance of the Company's performance of the service under the arrangement and recorded as deferred obligation in the accompanying consolidated balance sheets.

**Cost of Revenue**

Cost of revenue consists primarily of amounts due to third party websites and platforms to fulfill customers' advertising campaigns. The Company recognizes these cost of revenues as the associated revenue is recognized. Additionally, web hosting and advertising serving platform costs are included in cost of revenue.

**Selling, General and Administrative**

Selling, general and administrative expense consists primarily of compensation-related expenses of sales and marketing personnel, and related support teams, travel and other marketing spend. Also, it consists of general and administrative expenses including facilities, executive and administrative compensation, employee benefits, professional services fees, insurance costs, and other general overhead costs.

**Editorial**

Editorial expenses consist primarily of compensation-related expenses and related travel and image licensing costs incurred for the publishing of editorial content.

**Research and Development**

Research and development expenses consist primarily of compensation-related expenses incurred for the development of, enhancements to and maintenance of the Company's website, technology platforms and infrastructure. Certain development expenses have been capitalized under the provisions of the guidance related to *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, whereby the Company capitalizes costs associated with customized internal-use software systems that have reached the application development stage.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes benefits associated with an uncertain tax position in its financial statements on the basis of a two-step process whereby (1) the Company determines, based on the technical merits of the position, it is more-likely-than-not that the tax position will be sustainable upon audit and (2) those tax positions that meet the more-likely-than-not threshold are recognized at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. This involves the identification of potential uncertain tax positions and the evaluation of tax law and an assessment of whether a liability for

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**7. Debt Instruments**

On July 23, 2012 the Company entered into a \$5 million credit facility with Silicon Valley Bank. The amount of borrowings available under the credit facility at any time is based on the Company's monthly accounts receivable balance at such time, and the amounts borrowed are collateralized by the Company's personal property (including such accounts receivable but excluding intellectual property).

The credit facility includes contain covenants that, among other things, require us to maintain minimum levels of consolidated tangible net worth and certain liquidity ratios. The Company is in compliance with all covenants.

As of December 31, 2012, the Company had not borrowed on the facility.

**8. Stockholders' Equity**

**Convertible Preferred Stock**

<b>Series</b>	<b>Year Issued</b>	<b>Shares Authorized</b>	<b>Shares Issued and Outstanding</b>	<b>Issue Price</b>	<b>Liquidation Value</b>
Series A	2008	3,500,000	3,500,000	\$ 1.0000	\$ 3,500,000
Series A-1	2008	3,800,515	3,800,515	\$ 0.1579	\$ 600,101
Series B	2010	4,401,242	4,401,242	\$ 1.8177	\$ 8,000,000
Series C	2011	5,024,637	5,024,637	\$ 3.0848	\$ 15,500,000
Series D	2012	2,412,718	2,412,718	\$ 8.0283	\$ 19,370,024
		<u>19,139,112</u>	<u>19,139,112</u>		<u>\$ 46,970,125</u>

On December 23, 2011, the Company issued 5,024,637 shares of Series C convertible preferred stock at a price of \$3.0848 per share for net proceeds of \$15,434,047 comprised of \$15,500,000 in cash (net of issuance costs of \$65,953).

On December 19, 2012, the Company issued 2,412,718 shares of Series D convertible preferred stock at a purchase price of \$8.0283 per share for net proceeds of \$19,310,914 comprised of \$19,370,024 in cash (net of issuance costs of \$59,110).

**Voting Rights**

Each share of the Company's preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such share of preferred stock could be converted and votes with the common stock as a single class. Each share of common stock is entitled to one vote.

**Dividends**

Holders of shares of the Company's preferred stock are entitled to receive noncumulative annual dividends at a rate of 8% of the applicable original issue price when, as and if declared by the Company's board of directors, prior and in preference to any dividends on shares of the Company's common stock.

**Conversion**

Shares of the Company's preferred stock are convertible at the option of the holders into shares of the Company's common stock. Each share of preferred stock is convertible, without payment of

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additional consideration by the holder, into such number of fully paid and non-assessable shares of common stock as is determined by dividing the adjusted original issue price by the conversion price applicable to such share.

Each share of preferred stock will be automatically converted based on its conversion ratio into shares of common stock upon the earlier of the occurrence of a qualified initial public offering, as defined, or the vote of the holders of a majority of the outstanding Series A, B, C and D preferred stock (voting together as a single class and on an as-converted basis) and the holders of a majority of the outstanding Series C and D preferred stock (voting together as a single class and on an as-converted basis).

***Liquidation Preference***

In the event of any liquidation, dissolution or winding up of the Company, including a deemed liquidation event, as defined, the holders of Series A, B, C and D preferred stock shall be entitled to receive, on a *pari passu* basis and in preference to all other holders of capital stock of the Company, pro rata, an amount equal to the respective purchase price plus declared and unpaid dividends on each share of Series A, B, C and D preferred stock (the "Liquidation Preference"). Next, the holders of Series A-1 preferred stock shall be entitled to receive, in preference to holders of common stock, an amount equal to the purchase price plus declared but unpaid dividends on each share of Series A-1 preferred stock. After the payment of such preferential amounts, any remaining assets shall be distributed pro rata among the holders of common stock and the Series A, B, C and D preferred stock on an as-converted basis until the holders of the Series A, B, C and D preferred stock receive an aggregate (including the Liquidation Preference) of two times the applicable per share purchase price. Any remaining proceeds shall be paid to the holders of common stock. If the assets are insufficient to permit payment of the Liquidation Preference in full to all holders of Series A, B, C and D preferred stock, the assets shall be distributed ratably to the holders of the Series A, B, C and D preferred stock in proportion to the amount each such holder would otherwise be entitled to receive.

As a deemed liquidation event under these provisions, which includes certain transactions including a change in control, is not solely within the control of the Company, preferred stock has been classified as temporary equity.

**Redemption**

At any time after December 18, 2017, the holders of (i) a majority of the then outstanding Series A, B, C and D preferred stock (voting together as a single class and on an as-converted basis) and (ii) a majority of the outstanding Series C and D preferred stock (voting together as a single class and on an as-converted basis) may require that all of the then outstanding shares of Series A, B, C and D preferred stock be redeemed. Upon such a request, the Company must, to the extent it may lawfully do so, redeem in two annual installments the then outstanding shares of Series A, B, C and D preferred stock by paying in cash a sum per share equal to the applicable per share purchase price plus any declared but unpaid dividends.

**Stock Option Plan**

On June 25, 2008, the Company adopted the 2008 Stock Plan (the Plan) which authorized 1,574,744 shares of common stock for issuance to employees and other service providers. On May 3, 2010, September 27, 2011, December 22, 2011 and December 17, 2012 the Company increased the authorized amount of common stock by 952,946, 297,084, 1,057,000, and 395,255 shares, respectively. All options have a term of no greater than 10 years from the date of grant. Stock options generally vest 25% one year after grant and 1/48th each month over the next 36 months.

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At December 31, 2012, there were 1,158,206 additional shares available for the Company to grant under the Plan. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option-pricing model using assumptions in the following table. The Company uses the simplified method in accordance with ASC 718-10-S99 to estimate the expected term of the option, due to the limited historical experience to date. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Since the Company's common stock is not publicly traded for a sufficient time period, the expected volatility is based on expected volatilities of similar companies that have a history of being publicly traded. No dividends have been assumed. Share-based compensation expense is reduced by estimated forfeitures based on historical experience.

	2012	2011
<b>Valuation Assumptions</b>		
Fair value common stock	\$ .80	\$ .52 - \$.80
Expected dividend yield	-	-
Expected volatility	47% - 48%	47% - 48%
Expected term (years)	5.51 - 6.42	5.55 - 6.08
Risk free interest rate	.82 - 1.24	1.11 - 2.48

A summary of the share activity under the Plan is presented below:

	Number of Shares	Average Exercise Price	Remaining Contract Term	Aggregate Intrinsic Value
<b>Balance as of December 31, 2010</b>	1,907,212	\$ 0.38	8.6	\$ 270,630
Granted	794,593	0.56		
Exercised	(10,000)	0.25		
Forfeited	(109,355)	0.52		
Expired	(6,250)	0.52		
<b>Balance as of December 31, 2011</b>	2,576,200	\$ 0.43	8.1	\$ 960,596
Granted	674,342	0.80		
Exercised	(784,996)	0.37		
Forfeited	(164,176)	0.57		
Expired	(7,479)	0.52		
<b>Balance as of December 31, 2012</b>	2,293,891	\$ 0.55	7.8	\$ 4,162,439
<b>Exercisable at December 31, 2012</b>	1,098,803	\$ 0.40	6.8	\$ 2,151,260
<b>Expected to vest after December 31, 2012</b>	1,195,088	\$ 0.68	8.7	\$ 2,011,179

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The total fair value of shares vested during 2012 and 2011 was \$132,813 and \$89,017, respectively.

At December 31, 2012 and 2011, there was \$376,789 and \$333,244, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements under the Plan. The weighted average period over which unrecognized compensation cost was expected to be recognized at December 31, 2012 and 2011 was 2.7 and 2.6, respectively. The weighted average fair value of options granted during December 31, 2012 and 2011 was \$0.37 and \$0.26, respectively. The intrinsic value of options exercised at December 31, 2012 and 2011 was \$318,188 and \$2,700, respectively.

The Company currently uses authorized and unissued shares to satisfy share award exercises.

**9. Income Taxes**

In assessing the realizability of the Company's deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management's assessment is based on the weight of available evidence, including cumulative losses since inception and expected future losses and as such, management does not believe it is more likely than not that the deferred tax assets will be realized. Accordingly, a full valuation allowance has been established and no deferred tax assets and related tax benefit have been recognized in the accompanying financial statements. As of December 31, 2012 and 2011, the deferred tax assets were fully offset by a valuation allowance. The valuation allowance as of December 31, 2012 and 2011 was \$5,181,543 and \$3,114,643. The net change in the valuation allowance for the year ended December 31, 2012 was an increase of \$1,703,220. The increase in the valuation allowance in 2012 is primarily attributable to increases in the net operating loss.

Significant components of deferred tax assets and (liabilities) at December 31, 2012 and 2011 were as follows:

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Deferred tax assets:</b>		
Net operating losses carryforwards	\$ 5,169,178	\$ 3,176,704
Accruals	52,995	-
Depreciation and amortization	138,781	54,463
Other	4,807	2,026
<b>Total deferred tax assets</b>	<b>5,365,760</b>	<b>3,233,192</b>
Valuation allowance	(5,181,543)	(3,114,643)
<b>Total net deferred tax assets</b>	<b>184,217</b>	<b>118,549</b>
<b>Deferred tax liabilities:</b>		
Intangible assets	(184,217)	(118,549)
<b>Total deferred tax liabilities</b>	<b>(184,217)</b>	<b>(118,549)</b>
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>

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As of December 31, 2012, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$11,602,697. The federal net operating loss carryforwards will expire, if not utilized, beginning in year 2028.

In addition, the Company has net operating loss carryforwards for state income tax purposes of approximately \$1,854,941 which expire, if not utilized, beginning in the year 2028.

The Company adopted the provisions of guidance related to uncertainty in income taxes (f/k/a FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB 109*) on January 1, 2009. There was no impact to the financial statements due to the adoption of this guidance.

The balance of gross unrecognized tax benefits at December 31, 2012 is approximately \$27,000. It is unlikely that the amount of liability for unrecognized tax benefits will significantly change within the next 12 months.

In accordance with the Company's accounting policy, it recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company has not accrued interest and penalties at December 31, 2012. The Company's total amount of unrecognized tax benefits that if recognized would affect its effective rate is immaterial at December 31, 2012.

The Company files income tax returns in the U.S., New York, California, Illinois, Kentucky, Maryland, Minnesota and New York City. The Company is subject to examination dating back to 2009.

The utilization of net operating losses and tax credit carryforwards and may be subject to substantial annual limitation in the event that there is a change in ownership as provided by Section 382 of the Internal Revenue Code and similar state provisions. Such a limitation could result in the expiration of the net operating loss carryforwards and tax credits before utilization.

**10. Acquisitions**

*Ze Frank Games, Inc.*

On September 11, 2012, the Company completed the acquisition of Ze Frank Games, Inc. for \$1,000 in cash and 99,089 vested shares of our common stock valued at \$0.80.

The Company formed BF Acquisition Holding Corp., a Delaware corporation, as a wholly owned subsidiary. BF Acquisition Holding Corp. then formed ZF Merger Acquisition Corp., a Delaware corporation, which merged with and into Ze Frank Games, Inc.

*Kingfish Labs, Inc.*

On September 11, 2012, the Company completed the acquisition of Kingfish Labs, Inc., for \$1,000 in cash and 70,776 vested shares of our common stock valued at \$0.80.

BF Acquisition Holding Corp. formed KF Merger Acquisition Corp., a Delaware corporation, which merged with and into Kingfish Labs, Inc.



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The acquisitions are not material to the Company's consolidated financial statements. The acquisitions consisted primarily of cash acquired of \$135,011 and certain liabilities.

**11. Subsequent Events**

On March 7, 2013, the Company entered into a Distribution Agreement with a publishing platform ("Publisher") to provide certain audiovisual content to the Publisher. The agreement provides for a \$3,500,000 guaranteed payment to the Company, in exchange for the Company providing original videos (the "Content") for platform distribution. Under the Agreement, the Publisher retains 100% of advertising revenue sold by either the Company or the Publisher against the Content until it has fully recouped the payment amount, at which point advertising revenue is shared in an amount determined in the Agreement. Each party has termination rights under the Agreement.

The Company has evaluated subsequent events have been evaluated through the date the consolidated financial statements were available to be issued. There were no material subsequent events through September 30, 2013 which have not already been reflected or disclosed in the consolidated financial statements.