



APPRAISAL REPORT FOR:

Ms. Client

Client Portfolio

September 1, 2006

APPRAISAL REPORT DOCUMENTS:

- I. Executive Summary
- II. Definitions, Contingent and Limiting Conditions
- III. Valuation Model And Analysis
- IV. Value Range
- V. Certification
- VI. Qualifications of The Principal Appraiser

I. EXECUTIVE SUMMARY

At your request, we have performed an appraisal of Client Portfolio described on pages 7-8.

The purpose of this report is to estimate the market value of the registration rights of the subject domain name as of the valuation date 9/1/2006.

This report is intended to assist in the analysis of the domain name for valuation purposes only.

Interest Appraised: Registration Rights

Appraisal Type: Limited¹

Report Type: Restricted²

Date of Request: August 14, 2006

Date of Valuation: September 1, 2006

Client: Ms. Client

Appraisal ID: 1001

Domain Names	Value
Client Portfolio	US\$ 120,000-165,100

¹ See definition on page 3.

² See definition on page 3.

II. DEFINITIONS, CONTINGENT AND LIMITING CONDITIONS

A. DEFINITIONS

1. In this report, "we", "us", "our" refers to DomainMart Inc. ("DomainMart"), a California corporation, with primary business address at 2342 Shattuck Avenue, Berkeley, California, 94704.
2. As defined by the Office of the Comptroller of Currency (OCC), *appraisal* means a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion as to the market value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market information.
3. The *market value* of an asset, as defined by the OCC in 12 CFR, part 34, follows:

The most probable price in terms of money which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in the definition is the consummation of a sale as of a specific date and the passing of title from seller to buyer under conditions whereby:

 - a. Buyer and seller are typically motivated;
 - b. Both parties are well informed or well advised, and each acting in what they consider their own best interest;
 - c. A reasonable time is allowed for exposure in the open market;
 - d. Payment is made in terms of cash U.S. Dollars, or in terms of financial arraignment comparable thereto; and
 - e. The price represents a normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
4. Type of Analysis: This appraisal is *limited appraisal* due to the variability conditions set forth in the Statement of Contingent And Limiting Conditions.
5. Type of Report: This report is a *restricted report* in that it only states analysis results and outlines the data and information used. Supporting documentation is retained in the appraiser's file.

B. CONTINGENT AND LIMITING CONDITIONS

1. The appraisal assumes a freely marketable registration title and that there are no claims, restrictions or liabilities against or in connection with the domain name unless otherwise stated.
2. We assume no hidden or unapparent conditions regarding the domain name or any associated Website.
3. The information furnished by others is believed to be reliable. However, we issue no warranty or other form of assurance regarding its accuracy.
4. DomainMart does not warrant the value associated with this appraisal and therefore, DomainMart accepts no responsibility for any unauthorized third party reliance on this appraisal or appraisal report.
5. The appraisal contained herein is based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. This appraisal is, therefore, subject to changes in future conditions.
6. Many factors impact a final transaction price, most of which are beyond our or client's control. As such, the appraisal range provided in this report may not reflect the final actual transaction price. DomainMart cannot be held responsible for such discrepancies.
7. The domain name that is the subject of this report may be listed for sale on DomainMart.com Website. Our appraisal process is conducted independent of any such listing, if such exists.
8. We, by reason of this opinion, are not required to furnish a complete valuation report, or to give further consultation, or to give testimony, or to be in attendance in court with reference to domain name in question unless arrangements have been previously made.

III. VALUATION MODEL AND ANALYSIS

The report sections that follow describe the general valuation methodology and the valuation procedures and analyses related to the domain name subject to appraisal.

(A) VALUATION METHODOLOGY

As recognized by the *Uniform Standards of Professional Appraisal Practice* (USPAP), there are three generally accepted approaches to estimating the value of all assets: (1) the market approach, intended to reflect comparative market prices; (2) the income approach, intended to reflect economic value; and (3) the cost approach, intended to reflect the utility characteristics of the asset. These approaches apply to intangible assets and intellectual properties, as well as to tangible property.

Each valuation approach emphasizes a different attribute of a domain name. Using all applicable approaches may increase the confidence level of value conclusions. Nevertheless, poorly supported valuations result from the naïve use of all three approaches. The information that is available for valuation should determine the approach used.

The market approach examines the comparative characteristics of reasonably competitive properties. When there are sufficient market-driven transactional data from which to estimate comparable domain names, this approach is appropriate. If the selected comparable domain names are not, indeed, comparable to the subject domain name, the market approach is weakened.

The income approach relies on the cash flow that the domain name is expected to generate over the life of its use. As such, this approach requires a reasonable estimate of future cash flows and their risk. Thus, quality of valuation depends on the accuracy of the estimates used in the valuation model.

The cost approach looks at the cost to reproduce or replace an asset. This approach is not appropriate for domain names and intangible assets, since the cost to replace such an asset is seldom reflective of its value, except at the inception of its life.

(B) VALUATION PROCESS: A Market Approach

We have developed a statistical model to predict the price of a domain name. Statistical models are a pre-requisite to perform any meaningful appraisal. With such a model in hand, one can measure how good the prediction is and can strive to improve the model's prediction accuracy.

Our model uses a set of predictors to estimate the fair market value of a domain name. We forecast the price based on a statistical model for the form:

$$\text{Value} = f(X_1, X_2, \dots, X_N),$$

where Value is the estimated market value of a domain name, $f(\)$ is a nonlinear function that also allows interaction between the predictors, and X_i is the i^{th} predictor of Value.

Before selecting a predictor, we require that it make economic sense — i.e., it must be a meaningful predictor of profit. Moreover, the data available should reflect the true relationship between the predictor and Value (for example, if one expects a positive relationship between them, the data should support such an assertion; otherwise, the predictor is not used).

Tree-structure estimation techniques are used to estimate the model, yielding a model superior to the standard least-squares regression approach. Given the set of qualified predictors, the final predictors used are the ones that minimize the fitted deviance (the difference between the actual sale price and the predicted Value).

Our model is regularly updated as more data become available.

(C) VALUATION DATABASE

In estimating the predictive model for Value, we use transaction prices collected from publicly available auctions such as www.AfterNic.com and DNJournal.com, as well as prices from proprietary-domain escrow data. For each of the prediction variables, data are collected from publicly available sources. Thus, the only proprietary data used are transaction prices from domain-name escrow through DomainMart.

The starting period for which complete data on predictors is available is January 2004. The database has approximately 4,580 observations.

The input variables and data for the domain names are as follows:

Table 1: Domain Name Characteristics

Domain Name	Extension	Length	No. of Words	Numeric	Hyphen
Sample.COM	com	6	1	no	no
Samples.COM	com	7	1	no	no
Sample.NET	net	6	1	no	no

Table 2: Search Engine Information

Keyword	Google Search Results	Overture Monthly Search Volume	Overture Max. Bids	Overture No. Of Bids	Overture Clicks	Google Daily Clicks	Google Avg. CPC
sample							
samples							

Where **CPC** ≡ cost per click

Table 3: Website Statistics

Domain Name	Overture	MSN LP	Google PR	Google LP	Alexa LP	Alexa TR	Yahoo LP
Sample.COM							
Samples.COM							
Sample.NET							

Where
 LP ≡ Link popularity in the corresponding search engine
 PR ≡ Google's page rank, representing the website's authority
 TR ≡ Traffic rank by Alexa.com

Table 4: Search Engine Search Results

Keyword	Domain Name	Google	Yahoo
sample	Sample.COM	3	3
sample	Samples.COM	Not in top 10	Not in top 10
sample	Sample.NET	Not in top 10	Not in top 10
samples	Sample.COM	Not in top 10	Not in top 10
samples	Samples.COM	4	4
samples	Sample.NET	Not in top 10	Not in top 10

Table 5: Relevant Top-level Domain Registrations

Domain Name	If .ca Registered	If .us Registered
Sample.COM	yes	yes
Samples.COM	yes	yes
Sample.NET	yes	yes

Table 6: Domain Name Comparable

Sample.com	Samples.com	Sample.net
Sample11.COM	Samples21	Sample31.net
Sample12.COM	Samples22	Sample32.net
Sample13.com		

IV. VALUE RANGE

Market conditions may impact a final transaction price that is beyond our and your control.

Negotiations and legal issues (like trademark rights) also influence the price. Thus, the appraisal value in this report may not reflect the final actual value of the transaction.

Our final analysis has taken into consideration all data that we believe to be relevant and applicable in estimating the current market value of the subject domain names.

Special Cases

1. Dummy variables used to distinguish domain names containing the following:
 - a. **Prefixes** such as “i” and “e.”
 - b. **Common words.** Words such as “all” and “the,” which are ignored by Overture.com when performing a search for pay-per-click information on a domain name’s keywords.
 - c. **Hyphens.** There is relatively little comparable sales data for hyphenated domain names. Thus, the estimated value is less precise.
 - d. **Numbers**
 - e. **Foreign Words**
2. **Portfolio Effects**
 - a. **Plurals.** There is relatively little comparable sales data for complementary domain names that are plurals. A portfolio effect of owning the singular and plural forms of the keywords is positive when the brand-to-traffic (B/T) ratio is high, which suggests that users are more likely to type-in the domain names in the browser than reach the site through search engine result-links or following links from other websites. In such a case, the ownership of both domain names adds value.

For the pair Sample.COM and Samples.COM, the average B/T ratio is 1.2, which suggests there are no significant portfolio effects.
 - b. **Multiple Extensions.** Owning multiple extensions of the same domain name can also be a source of additional positive portfolio effects. The B/T ratio can provide some insight into the magnitude of the effect. A high B/T ratio suggests that the domain name is strongly driven by its brand name recognition, and thus, needs to be protected with other extensions. However,

there were no high ratios for any of the domain names considered in this appraisal, and thus, a positive portfolio effect due to multiple extension ownership is not significant.

Sensitivity Analysis

When making assumptions based on an appraiser's opinion, a sensitivity analysis is typically conducted to find out how sensitive the results are to various scenario assumptions. However, for the domain names in this report, the value of the domain names are relatively small and thus, performing a sensitivity analysis would not add significant insight into value.

Value Ranges

By utilizing the DomainMart Appraisal Model, we have determined the fair market value as follows:

Domain Name	Lower Value	Upper Value
Sample.COM		
Samples.COM		
Sample.NET		
	Total	

V. CERTIFICATION

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

1. The statements of fact contained in this report are true and correct.
2. The report represents only our unbiased, personal, and professional analysis, opinions and conclusions, which are subject to the limitations specified in this report.
3. We have no present or prospective interest in the domain name or domain site that is the subject of this report, and have no present or prospective personal interest or bias with respect to the participants in the transaction.
4. We did not base, either partially or completely, our analysis and/or appraisal on race, color, religion, sex, handicaps, familial status, or national origin of either the prospective owners or current owners of the domain name or domain Website.
5. The appraisal was not based on a requested minimum value, a specific valuation, or the approval of a loan.
6. Our opinion is rendered independent of what may be currently the listing value of the domain name, if such exists.
7. A qualified domain appraiser, certified by us, prepared this report. Our ability to evaluate domain names is based on several key factors: having over seven years of industry experience buying, selling, and appraising domain-name properties; holding one of the largest privately owned inventories of premier domain names; utilizing a vast database of information, some available in the public and some proprietary to us; and having a vast general knowledge of the marketplace.
8. No person other than the individuals whose qualifications are included herein have provided significant professional assistance regarding the analyses, opinions, and conclusions set forth in this report.

VI. QUALIFICATIONS OF THE PRINCIPAL APPRAISER

Alex Tajirian, President & CEO of DomainMart

After completing his Ph.D. course work in Economics at U. C. Berkeley, Tajirian joined Bank of America as a visiting scholar responsible for providing quantitative support to the trading floor. Tajirian has seventeen years of academic and practical experience. He has taught finance at the Graduate School of Business (Haas School) at U. C. Berkeley, and Business Policy and Strategy at U.C. Berkeley's Worldwide Programs. His nonacademic experience includes consulting experience with Morgan Stanley, Treynor-Arbit Associates, Financiometrics, and BARRA on financial risk monitoring and valuation.

Tajirian launched the first domain name secondary market in 1996. He has since pioneered the development of a number of industry models and estimation procedures, including: valuation based on pay-per-click (PPC), statistical regression-trees to estimate the likelihood of sale given an ask price, and liquidation value; sources and estimates of premiums among gTLDs; statistical domain name suggestion tools; and traffic monetization.

He has also been engaged in the following industry activities: an expert witness in a number of ecommerce-related litigation support, including federal antitrust cases; and a panelist at the Domain Roundtable Conference.

He is also a member of the board of Third World Enterprises Ltd, a leader in the acquisition and online distribution of Reggae-related intellectual property.

A sample of his industry studies and opinions is available at <http://www.domainmart.com/news/studies-opinion.htm>.