DEMAND MEDIA INC.

FORM 8-K/A
(Amended Current report filing)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 8, 2014

DEMAND MEDIA, INC.
(Exact name of Registrant as specified in its charter)

Delaware	001-35048	20-4731239
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

1655 26th Street Santa Monica, California	90404
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 394-6400

Not Applicable
(Former name or former address if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

On August 8, 2014, Demand Media, Inc. ("Demand Media") acquired Saatchi Online, Inc., a Delaware corporation ("Saatchi Online"), pursuant to an Agreement and Plan of Merger, dated as of August 8, 2014, by and among Demand Media, Gallery Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Demand Media ("Merger Sub"), Saatchi Online and Shareholder Representative Services LLC as the Stockholder Representative, whereby Merger Sub was merged with and into Saatchi Online, with Saatchi Online surviving the merger as a wholly owned subsidiary of Demand Media (the "Merger").

This Amendment No. 1 to the Current Report on Form 8-K/A ("Amendment No. 1") amends and supplements Item 9.01 of the original Form 8-K filed on August 11, 2014 to provide certain historical financial statements for Saatchi Online and certain pro forma financial information in connection with the Merger. Any information required to be set forth in the initial Form 8-K which is not being amended or supplemented pursuant to this Amendment No. 1 is hereby incorporated by reference. Except as set forth herein, no modifications have been made to the information contained in the initial Form 8-K and Demand Media has not updated any information contained therein to reflect the events that have occurred since the date of the initial Form 8-K. Accordingly, this Amendment No. 1 should be read in conjunction with the initial Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

Saatchi Online's audited financial statements as of and for the year ended December 31, 2013 and the notes related thereto are filed as Exhibit 99.1 hereto and incorporated herein by reference.

Saatchi Online's unaudited financial statements as of and for the six months ended June 30, 2014 and for the six months ended June 30, 2013 and the notes related thereto are filed as Exhibit 99.2 hereto and incorporated herein by reference.

(b) Pro Forma Financial Information

Unaudited pro forma condensed consolidated financial information for Demand Media and Saatchi Online as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013 and the notes related thereto are filed as Exhibit 99.3 hereto and incorporated herein by reference.

(d) Exhibits

23.1 Consent of CohnReznick LLP, Independent Auditor of Saatchi Online, Inc.

99.1 Audited financial statements of Saatchi Online, Inc. as of and for the year ended December 31, 2013.

99.2 Unaudited financial statements of Saatchi Online, Inc. as of and for the six months ended June 30, 2014 and for the six months ended June 30, 2013.

99.3 Unaudited pro forma condensed consolidated financial statements of Demand Media and Saatchi Online as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 24, 2014	DEMAND MEDIA, INC.	
	By:	/s/ Sean Moriarty
		Sean Moriarty
		Chief Executive Officer

INDEX TO EXHIBITS

Exhibit No.	Description
23.1	Consent of CohnReznick LLP, Independent Auditor of Saatchi Online, Inc.
99.1	Audited financial statements of Saatchi Online, Inc. as of and for the year ended December 31, 2013.
99.2	Unaudited financial statements of Saatchi Online, Inc. as of and for the six months ended June 30, 2014 and for the six months ended June 30, 2013.
99.3	Unaudited pro forma condensed consolidated financial statements of Demand Media and Saatchi Online as of and for the six months ended June 30, 2014 and for the year ended December 31, 2013.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-183544 and 333-198492) and Form S-8 (No. 333-172371) of Demand Media, Inc. of our report dated October 24, 2014 relating to the consolidated financial statements of Saatchi Online, Inc. and Subsidiary as of and for the year ended December 31, 2013, which is included in the Current Report on Form 8-K/A filed by Demand Media, Inc. on October 24, 2014.

/s/ CohnReznick LLP

Los Angeles, California
October 24, 2014

Exhibit 99.1

Saatchi Online, Inc. and Subsidiary

Consolidated Financial Statements
and Independent Auditor's Report

December 31, 2013

Saatchi Online, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors and Shareholders
Saatchi Online, Inc.

We have audited the accompanying consolidated financial statements of Saatchi Online, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statement of operations, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saatchi Online, Inc. and Subsidiary as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP
Los Angeles, California
October 24, 2014

Saatchi Online, Inc. and Subsidiary

Consolidated Balance Sheet
As of December 31, 2013

		December 31, 2013
Assets		
Current assets:		
Cash	$	5,196,669
Prepaids and other current assets		23,854
Total current assets		5,220,523
Property and equipment, net		256,440
Intangible assets, net		2,559,335
Other long-term assets		38,682
Total assets	$	8,074,980
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$	2,459,327
Accrued expenses and other current liabilities		357,314
Deferred revenue		402,202
Total current liabilities		3,218,843
Commitments		
Shareholders' equity:		
Preferred stock, liquidation preference of $15,165,015		855
Common stock		479
Additional paid-in capital		15,118,220
Accumulated deficit		(10,263,417)
Total shareholders' equity		4,856,137
Total liabilities and shareholders' equity	$	8,074,980

See Notes to Consolidated Financial Statements

Saatchi Online, Inc. and Subsidiary

Consolidated Statement of Operations
For the Year Ended December 31, 2013

		Year ended December 31, 2013
Revenue:		
Service revenue	$	1,850,209
Product revenue		605,585
Totals		2,455,794
Operating expenses:		
Service costs		1,012,207
Product costs		380,792
Sales and marketing		2,313,926
Product development		1,208,810
General and administrative		3,213,682
Totals		8,129,417
Operating loss		(5,673,623)
Other expense, net		25,062
Loss before income taxes		(5,698,685)
Provision for income taxes		800
Net loss	$	(5,699,485)

See Notes to Consolidated Financial Statements

Saatchi Online, Inc. and Subsidiary

Consolidated Statement of Changes in Shareholders' Equity
Year Ended December 31, 2013

	Preferred Stock				Common Stock		Additional		Total
	Series A		Series B				Paid-in	Accumulated	Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balance at January 1, 2013	3,024,000	$ 302	-	$ -	4,766,652	$ 477	$ 5,048,087	$ (4,563,932)	$ 484,934
Issuance of common stock upon exercise of stock options	-	-	-	-	19,438	2	7,384		7,386
Stock-based compensation expense	-	-	-	-	-	-	44,993	-	44,993
Issuance of Series B preferred stock (net of issuance costs of $106,697)	-	-	5,522,981	553	-	-	10,017,756	-	10,018,309
Net loss	-	-	-	-	-	-	-	(5,699,485)	(5,699,485)
Balance at December 31, 2013	3,024,000	$ 302	5,522,981	$ 553	4,786,090	$ 479	$15,118,220	$ (10,263,417)	$ 4,856,137

See Notes to Consolidated Financial Statements

Saatchi Online, Inc. and Subsidiary

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2013

		Year ended December 31, 2013
Operating activities:		
Net loss	$	(5,699,485)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on disposal of equipment		4,911
Stock-based compensation		44,993
Depreciation and amortization		492,424
Changes in operating assets and liabilities:		
Prepaid expenses and other assets		28,967
Accounts payable		2,215,272
Accrued expenses and other current liabilities		290,019
Deferred revenue		355,198
Net cash used in operating activities		(2,267,701)
Investing activities:		
Purchase of equipment		(262,825)
Net cash used in investing activities		(262,825)
Financing activities:		
Issuance of common stock upon exercise of stock options		7,386
Issuance of Series B preferred stock, net of issuance costs		7,018,307
Net cash provided by financing activities		7,025,693
Net increase in cash and cash equivalents		4,495,167
Cash and cash equivalents, beginning of year		701,502
Cash and cash equivalents, end of year	$	5,196,669
Supplemental disclosure of cash flow information:		
Income taxes paid	$	1,624
Supplemental schedule of noncash investing and financing activities:		
Issuance of Series B Preferred Stock in exchange for technology license	$	3,000,002

See Notes to Consolidated Financial Statements

Note 1 - Business and summary of significant accounting policies

Business activity

Saatchi Online, Inc. (“Saatchi Online”) was organized in the state of Delaware as a corporation on December 9, 2009 and operates the website SaatchiArt.com. SaatchiArt.com is an online art gallery that provides a global community of artists an environment in which to exhibit and sell their work, consisting of a wide selection of paintings, drawings, sculpture and photography.

Saatchi Online Europe GmbH (“Saatchi Europe”) is a wholly-owned subsidiary of Saatchi Online (collectively, the “Company”) organized in Germany that employs platform developers for SaatchiArt.com. The Company has determined that the functional currency of Saatchi Europe is the U.S. dollar; therefore, the financial statements of Saatchi Europe have been remeasured into U.S. dollars for consolidation. Remeasurement gains and losses were not considered material for the year ended December 31, 2013.

Principles of consolidation

The accompanying consolidated financial statements of the Company include the accounts of Saatchi Online and Saatchi Europe. All significant intercompany accounts and transactions have been eliminated in consolidation.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the asset or the lease term.

Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If an impairment loss exists, the carrying amount of the related long-lived asset is reduced to its estimated fair value. No impairment write-downs were recorded during the year ended December 31, 2013.

Revenue recognition

Service revenue arises from the sale of original art and is reported net of payments paid to the artist. Revenue from services is recognized when the original art is delivered and the return period has expired. Product revenue arises from the sale of prints and is recognized when the prints are delivered and the return period has expired. Payment is typically collected prior to the completion of revenue recognition and recorded as deferred revenue.

Sales tax and duties
Sales taxes and duties are imposed by various jurisdictions on certain of the Company's sales. The Company collects sales tax and duties from customers and remits the entire amount to the imposing jurisdictions. The Company records the collection and remittance of sales tax and duties on a net basis in service and product costs.

Shipping expenses
The Company recorded shipping billed to customers of $770,791 in service revenues in the accompanying statement of operations for the year ended December 31, 2013. Shipping costs of $776,219 were recorded in service and product costs for the year ended December 31, 2013.

Advertising and promotional expenses
Advertising and promotion costs are expensed as incurred. Advertising and promotion expense for the year ended December 31, 2013 were $2,091,499.

Stock-based compensation
The Company measures and recognizes compensation expense for all stock-based payment awards based on the grant date fair values of the awards. For stock option awards to employees with service and/or performance based vesting conditions the fair value is estimated using the Black-Scholes-Merton option pricing model. The value of an award that is ultimately expected to vest is recognized as expense over the requisite service periods in the consolidated statement of operations. The Company elected to treat share-based payment awards with graded vesting schedules and time-based service conditions as a single award and recognize stock-based compensation expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. Stock-based compensation expenses are classified in the consolidated statement of operations based on the department to which the related employee reports. The Company's stock-based awards are comprised entirely of stock options granted to employees.

The Black-Scholes-Merton option pricing model requires management to make assumptions and to apply judgment in determining the fair value of our awards. The most significant assumptions and judgments include the expected volatility, expected term of the award and estimated forfeiture rates.

The expected volatility of the awards is estimated based on the historical volatility of selected public companies within the online retail and marketplace industry that are comparable to the Company's line of business. From the Company's inception through December 31, 2013, the weighted average expected life of options was calculated using the simplified method as prescribed under guidance by the SEC. This decision was based on the lack of relevant historical data due to our limited experience and the lack of an active market for our common stock. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury notes with terms approximately equal to the expected life of the option. The expected dividend rate is zero as the Company currently has no history or expectation of paying cash dividends on its common stock. The forfeiture rate is established based on applicable historical forfeiture patterns adjusted for any expected changes in future periods.

Income taxes
Income taxes are recognized for the amount of taxes payable or refundable for the current year, and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The Company has no unrecognized tax benefits at December 31, 2013. The Company's Federal and state tax returns are open for audit for the years ended December 31, 2011 and after and for the years ended December 31, 2010 and after, respectively. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. When necessary, the Company recognizes interest and penalties associated with tax matters as part of general and administrative expenses.

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events
The Company has evaluated the impact of subsequent events through October 24, 2014, the date the financial statements were available to be issued.

Note 2 - Business and credit concentrations
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. Cash exceeding Federally insured limits totals approximately $4,565,000 at December 31, 2013.

Note 3 - Property and equipment

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

Computer and other related equipment	$ 104,840
Furniture and fixtures	116,313
Leasehold improvements	88,350
	309,503
Less accumulated depreciation	(53,063)
	$ 256,440

For the year ended December 31, 2013, depreciation expense was $34,424.

Note 4 - Intangible assets

Intangible assets at December 31, 2013 consist of the following:

	Useful Life	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount
Technology	5	$ 3,000,002	$ (450,000)	$ 2,550,002
Trade name	5	40,000	(30,667)	9,333
		$ 3,040,002	$ (480,667)	$ 2,559,335

For the year ended December 31, 2013, amortization expense was $458,000. Estimated amortization expense for the next five succeeding years is as follows:

Year Ending December 31,	
2014	$ 608,000
2015	601,333
2016	600,000
2017	600,000
2018	150,002
Total	$ 2,559,335

Note 5 – Commitments

The Company leased its headquarters under the terms of a non-cancelable operating lease agreement that was scheduled to expire in February 2015. Total rent expense under the lease for the year ended December 31, 2013 was $18,000. As of December 13, 2013, minimum future lease payments under this operating lease were $216,000 for year ending December 31, 2014 and $36,000 for the year ending December 31, 2015. The Company terminated this lease effective as of September 30, 2014, and no further amounts are due under the lease subsequent to such date.

Note 6 - Equity

Preferred Stock

The Company is authorized to issue 8,824,000 shares of preferred stock. The preferred stock may be issued in distinct series, of which there were two authorized as of December 31, 2013: Series A preferred stock, 3,024,000 shares, all of which are issued and outstanding at December 31, 2013; and Series B preferred stock, 5,800,000 shares, of which 5,522,981 are issued and outstanding at December 31, 2013.

On March 1, 2010, the Company issued 3,024,000 shares of $0.0001 par value Series A preferred stock for $1.66667 per share for cash proceeds of $4.9 million, net of issuance costs.

The Company issued Series B preferred stock on April 2, 2013, May 17, 2013, September 27, 2013 and December 23, 2013. In aggregate, the Company issued 5,522,981 shares of $0.0001 par value Series B preferred for $1.83325 per share for cash proceeds of $7.018 million, net of issuance costs, and a technology license with a fair market value of $3.0 million.

The following is a summary of the rights and preferences of the classes of preferred stock as of December 31, 2013:

Dividends – Preferred stock holders are entitled to receive dividends on a pari passu basis in regards to each series of preferred stock, and out of any assets legally available, when and if declared by the board of directors in an amount equal to 8% to their respective original issue price per share. The dividends are not cumulative and are paid when and if declared by the board of directors. If, after dividends in the full preferential amount have been paid or set apart for payment in any calendar year, the board of directors declares additional dividends out of funds legally available in that calendar year, then such additional dividends will be declared pro rata on the common stock and each series of preferred stock, as converted, on a pari passu basis according to the number of shares of common stock held by such holders.

Liquidation preferences – In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or any deemed liquidation event, before any payment is made to the holders of common stock, preferred stock holders are entitled to be paid out of the funds and assets available for distribution to it stockholders, on a pari passu basis in regards to each series of preferred stock, an amount per share equal to the greater of (1) the original issue price for each respective series of preferred stock, plus any dividends declared but unpaid thereon, or (b) such amount per share as would have been payable had all shares of such series of preferred stock been converted into common stock immediately prior to such liquidation, dissolution, winding up or deemed liquidation event. If upon any such liquidation, dissolution, winding up or deemed liquidation event, the funds and assets available for distribution to the stockholders of the Company are insufficient to pay the holders of shares of preferred stock the full amounts, the holders of shares of preferred stock shall share ratably in any distribution of the funds and assets available for distribution in proportion to the respective amounts that would otherwise be payable in respect of the shares of each series of preferred stock held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full. The remaining funds and assets available for distribution to the stockholders will be distributed among the holders of share of common stock on a pro rata basis.

Conversion rights – Each share of a series of preferred stock shall be convertible, at the option of the holder, at any time, and without the payment of additional consideration by the holder, on a one-to-one basis, subject to adjustment for stock splits, dilutive issuances and similar events.

Voting rights - The holders of common stock and each series of preferred stock vote together as a single class and not as separate classes. Each holder of preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which the shares of each series of preferred stock held by such holder could be converted as of the record date for determining stockholders entitled to vote on such matter. The holders of shares of preferred stock shall be entitled to vote on all matters on which the common stock shall be entitled to vote. In addition, certain actions, such as adverse changes to the rights, preferences or privileges of a series of preferred stock, may require the consent of holders of a specified percentage of shares of such series.

Common Stock

On March 1, 2010, the Company issued 6,000,000 shares to its founders of $0.0001 par value common stock at $0.01 in exchange for an Intellectual Property license and Technology licenses with a fair market value of $60,000. During 2011 and 2012, the Company redeemed and cancelled 1,233,348 of the common shares at par value. At December 31, 2013, the Company is authorized to issue 15,824,000 shares of common stock, of which 4,786,090 are issued and outstanding.

Note 7 - Stock-based compensation

Under the Company’s 2010 Incentive Award Plan (“2010 Plan”), the administrator of the plans, which is the compensation committee of the board of directors, may grant up to 1,733,336 stock options to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified at the discretion of the administrator.

Under the Company's 2013 Incentive Award Plan ("2013 Plan"), the administrator of the plans, which is the compensation committee of the board of directors, may grant up to 2,008,562 stock options to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified at the discretion of the administrator. The shares include 1,235,412 shares plus up to 773,150 shares subject to outstanding options under the 2010 Plan.

Generally, stock option grants under both incentive award plans have 10-year terms and employee stock options vest 1/4th on the anniversary of the vesting commencement date and 1/48th monthly thereafter, over a 4-year period.

At December 31, 2013, unrecognized compensation expense related to nonvested awards totaled $252,099. The weighted average period over which this remaining compensation cost will be recognized is 3.37 years.

The assumptions used and the calculated fair value of options for the year ended December 31, 2013 are as follows:

Expected dividend yield	-
Risk-free interest rate	2.12%
Expected life in years	7
Expected volatility	60%
Weighted average fair value of options granted	$ 0.35

Stock option activity is as follows:

	Number of options outstanding	Weighted average price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at December 31, 2012	814,400	$ 0.19	7.7	$ 319,134
Options granted	766,999	$ 0.58		
Options exercised	(19,438)	$ 0.38		
Options forfeited	(306,937)	$ 0.18		
Outstanding at December 31, 2013	1,225,024	$ 0.43	9.0	$ 192,399
Exercisable at December 31, 2013	376,502	$ 0.19	7.7	$ 147,872
Vested and expected to vest at December 31, 2013	1,225,024	$ 0.43	9.0	$ 192,399

Stock-based compensation expense for the year ended December 31, 2013 was $44,993, which is included in the statement of operations as follows:

Service costs	$	344
Sales and marketing		1,230
Product development		10,693
General and administrative		32,726
Total	$	44,993

Note 8 - Income taxes

The provision for income taxes represents minimum state tax and income tax and is $800 for the year ended December 31, 2013 as the deferred tax benefit resulting from the pretax net loss was offset by an increase of the deferred tax valuation allowance.

Reconciliation of the provision for income taxes computed at the U.S. Federal statutory income tax rate to the reported provision is:

U.S. Federal statutory income tax	(34.00)	%
State, net of Federal benefit	(5.83)	
Permanent differences	0.37	
Change in valuation allowance	39.47	
	0.01	%

Components of deferred tax assets (liabilities) at December 31, 2013 are as follows:

Deferred tax assets - non-current:	
Amortizable intangibles	$ 145,008
Stock-based compensation	13,072
Net operating loss carryforwards	4,161,092
Total deferred tax assets	4,319,172
Deferred tax liabilities - non-current:	
Property and equipment	(40,860)
Deferred state taxes - Federal benefit	(282,512)
Total deferred tax liabilities	(323,372)
Valuation allowance	(3,995,800)
Net deferred tax assets	$ -

As of December 31, 2013, the Company had net operating loss carry forwards for federal and state income tax purposes of approximately $9,889,000 and $9,035,000, respectively, which expire between 2030 and 2033. Generally, these can be carried forward and applied against future taxable income. As result of various ownership changes, the utilization of the Company's net operating loss carry forwards may be subject to limitation by the change in control provisions of Section 382 of the Internal Revenue Code. The Company has not yet performed an analysis of such limitations.

In accordance with FASB ASC 740, Income Taxes, valuation allowances are provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has evaluated its ability to realize the deferred tax assets on its balance sheet and has established a valuation allowance in the amount of $3,995,800 at December 31, 2013, an increase of approximately $2,250,000 from December 31, 2012.

Note 9 - Related party transactions

During the year ended December 31, 2013, the Company was charged $1,524,604 for services provided by a shareholder. At December 31, 2013, the Company had accounts payable totaling $575,515 to this shareholder.

Note 10 - Subsequent events

In January 2014, the Company issued 204,555 shares of $0.0001 par value Series B preferred stock for $1.83325 per share for cash proceeds of $375,000.

On August 8, 2014, Demand Media, Inc. ("Demand Media") acquired all of the outstanding stock of the Company (the "Merger"), pursuant to an Agreement and Plan of Merger, dated as of August 8, 2014. After giving effect to working capital adjustments as of the closing date, the purchase price consisted of approximately $4.8 million in cash and 1,049,959 shares of Demand Media common stock, valued at approximately $10.3 million based on Demand Media's stock price on the closing date of the Merger. A portion of the cash purchase price equal to $1.7 million was placed into escrow and can be applied by Demand Media towards satisfaction of post-closing indemnification obligations of the former stockholders of Saatchi Online and/or post-closing adjustments to the purchase price. Any remaining portion of the escrow amount that is not subject to then-pending claims will be paid to the former stockholders of Saatchi Online on the one-year anniversary of the closing of the Merger.

Exhibit 99.2

Saatchi Online, Inc. and Subsidiary

Unaudited Condensed Consolidated Financial Statements

As of June 30, 2014 and December 31, 2013 and the Six Months Ended June 30, 2014 and 2013

Saatchi Online, Inc. and Subsidiary

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Saatchi Online, Inc. and Subsidiary

Unaudited Condensed Consolidated Balance Sheet

As of June 30, 2014 and December 31, 2013

Assets	**June 30, 2014**	**December 31, 2013**
Current assets:		
Cash	$ 986,730	$ 5,196,669
Prepaids and other current assets	100,114	23,854
Total current assets	1,086,844	5,220,523
Property and equipment, net	216,632	256,440
Intangible assets, net	2,257,295	2,559,335
Other long-term assets	39,172	38,682
Total assets	$ 3,599,943	$ 8,074,980
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 1,414,733	$ 2,459,327
Accrued expenses and other current liabilities	555,528	357,314
Deferred revenue	408,380	402,202
Total current liabilities	2,378,641	3,218,843
Commitments		
Shareholders' equity:		
Preferred stock	875	855
Common stock	479	479
Additional paid-in capital	15,678,513	15,118,220
Accumulated deficit	(14,458,565)	(10,263,417)
Total shareholders' equity	1,221,302	4,856,137
Total liabilities and shareholders' equity	$ 3,599,943	$ 8,074,980

See Notes to Unaudited Condensed Consolidated Financial Statements.

Saatchi Online, Inc. and Subsidiary

Condensed Consolidated Statement of Operations
For the Six Months Ended June 30, 2014 and June 30, 2013

	June 30, 2014	June 30, 2013
Revenue:		
Service revenue	$ 1,573,703	$ 567,088
Product revenue	409,103	250,704
Totals	1,982,806	817,792
Operating expenses:		
Service costs	1,019,804	286,859
Product costs	203,784	173,202
Sales and marketing	1,739,447	404,254
Product development	929,343	558,915
General and administrative	2,271,358	904,902
Totals	6,163,736	2,328,132
Operating loss	(4,180,930)	(1,510,340)
Other expense, net	13,418	4,816
Loss before income taxes	(4,194,348)	(1,515,156)
Provision for income taxes	800	800
Net loss	$ (4,195,148)	$ (1,515,956)

See Notes to Unaudited Condensed Consolidated Financial Statements.

Saatchi Online, Inc. and Subsidiary

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended June 30, 2014 and June 30, 2013

	June 30, 2014	June 30, 2013
Operating activities:		
Net loss	$ (4,195,148)	$ (1,515,956)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on disposal of equipment	6,162	-
Stock-based compensation	185,293	14,756
Depreciation and amortization	401,658	162,921
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(76,750)	(147,286)
Accounts payable	(1,044,594)	976,505
Accrued expenses and other current liabilities	198,214	62,987
Deferred revenue	6,176	92,516
Net cash used in operating activities	(4,518,989)	(353,557)
Investing activities:		
Purchase of equipment	(65,950)	(13,913)
Financing activities:		
Issuance of Series B preferred stock, net of issuance costs	375,000	3,447,444
Net cash provided by financing activities	375,000	3,447,444
Net (decrease) increase in cash and cash equivalents	$ (4,209,939)	$ 3,079,974
Cash and cash equivalents, beginning of year	5,196,669	701,502
Cash and cash equivalents, end of year	$ 986,730	$ 3,781,476
Supplemental schedule of noncash investing and financing activities:		
Issuance of Series B Preferred Stock in exchange for technology license	$ -	$ 3,000,002

See Notes to Unaudited Condensed Consolidated Financial Statements

Saatchi Online, inc. and Subsidiary

Unaudited Condensed Consolidated Statement of Shareholders' Equity

Six Months Ended June 30, 2014

	Preferred Stock				Common Stock		Additional		Total
	Series A		Series B				Paid-in	Accumulated	Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balance at December 31, 2013	3,024,000	$ 302	5,522,981	$ 553	4,786,090	$ 479	$15,118,220	$ (10,263,417)	$ 4,856,137
Stock-based compensation expense	-	-	-	-	-	-	185,293	-	185,293
Issuance of Series B preferred stock	-	-	204,555	20	-	-	375,000	-	375,020
Net loss	-	-	-	-	-	-	-	(4,195,148)	(4,195,148)
Balance at June 30, 2014	3,024,000	$ 302	5,727,536	$ 573	4,786,090	$ 479	$15,678,513	$ (14,458,565)	$ 1,221,302

See Notes to Unaudited Condensed Consolidated Financial Statements.

Note 1 - Business and summary of significant accounting policies:

Business activity:

Saatchi Online, Inc. ("Saatchi Online") was organized in the state of Delaware as a corporation on December 9, 2009 and operates the website SaatchiArt.com. SaatchiArt.com is an online art gallery that provides a global community of artists an environment in which to exhibit and sell their work, consisting of a wide selection of paintings, drawings, sculpture and photography.

Saatchi Online Europe GmbH ("Saatchi Europe") is a wholly-owned subsidiary of Saatchi Online (collectively, the "Company") organized in Germany that employs platform developers for SaatchiArt.com. The Company has determined that the functional currency of Saatchi Europe is the U.S. dollar; therefore, the financial statements of Saatchi Europe have been remeasured into U.S. dollars for consolidation.

Principles of consolidation

The accompanying consolidated financial statements of the Company include the accounts of Saatchi Online and Saatchi Europe. All significant intercompany accounts and transactions have been eliminated in consolidation.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the asset or the lease term.

Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If an impairment loss exists, the carrying amount of the related long-lived asset is reduced to its estimated fair value. No impairment write-downs were recorded during the six months ended

June 30, 2014 and 2013.

Revenue recognition

Service revenue arises from the sale of original art and is reported net of payments paid to the artist. Revenue from services is recognized when the original art is delivered and the return period has expired. Product revenue arises from the sale of prints and is recognized when the prints are delivered and the return period has expired. Payment is typically collected prior to the completion of revenue recognition and recorded as deferred revenue.

Sales tax and duties

Sales taxes and duties are imposed by various jurisdictions on certain of the Company's sales. The Company collects sales tax and duties from customers and remits the entire amount to the imposing jurisdictions. The Company records the collection and remittance of sales tax and duties on a net basis in service and product costs.

Stock-based compensation

The Company measures and recognizes compensation expense for all share-based payment awards based on the grant date fair values of the awards. For stock option awards to employees with service and/or performance based vesting conditions the fair value is estimated using the Black-Scholes-Merton option pricing model. The value of an award that is ultimately expected to vest is recognized as expense over the requisite service periods in the consolidated statement of operations. The Company elected to treat share-based payment awards with graded vesting schedules and time-based service conditions as a single award and recognize stock-based compensation expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. Stock-based compensation expenses are classified in the consolidated statement of operations based on the department to which the related employee reports. The Company's stock-based awards are comprised entirely of stock options granted to employees.

The Black-Scholes-Merton option pricing model requires management to make assumptions and to apply judgment in determining the fair value of our awards. The most significant assumptions and judgments include the expected volatility, expected term of the award and estimated forfeiture rates.

The expected volatility of our awards is estimated based on historical volatility of selected public companies within the online retail and marketplace industry that are comparable to the Company's line of business. From the Company's inception through December 31, 2013, the weighted average expected life of options was calculated using the simplified method as prescribed under guidance by the SEC. This decision was based on the lack of relevant historical data due to our limited experience and the lack of an active market for our common stock. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury notes with terms approximately equal to the expected life of the option. The expected dividend rate is zero as the Company currently has no history or expectation of paying cash dividends on its common stock. The forfeiture rate is established based on applicable historical forfeiture patterns adjusted for any expected changes in future periods.

Income taxes

Income taxes are recognized for the amount of taxes payable or refundable for the current year, and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The provision for income taxes is $800 on net losses of $4,195,148 and $1,515,956 for the six months ended June 30, 2014 and 2013 as the deferred tax benefits resulting from the pretax net losses were offset by increases of the deferred tax valuation allowances.

In accordance with FASB ASC 740, Income Taxes, valuation allowances are provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Use of estimates

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

Subsequent events

The Company has evaluated the impact of subsequent events through October 24, 2014, the date the financial statements were available to be issued.

Note 2 - Business and credit concentrations:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. Cash exceeding Federally insured limits totals approximately $737,000 at June 30, 2014.

Note 3 - Property and equipment:

Property and equipment consisted of the following:

	June 30, 2014	December 31, 2013
Computer and other related equipment	$ 134,363	$ 104,840
Furniture and fixtures	122,762	116,313
Leasehold improvements	112,247	88,350
	369,372	309,503
Less accumulated depreciation	(152,740)	(53,063)
	$ 216,632	$ 256,440

For the six months ended June 30, 2014 and 2013, depreciation expense was $100,000 and $7,000, respectively.

Note 4 - Intangible assets

Intangible assets consist of the following:

	June 30, 2014		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount
Technology	$ 3,000,002	$ (750,000)	$ 2,250,002
Trade name	40,000	(32,707)	7,293
	$ 3,040,002	$ (782,707)	$ 2,257,295

	December 31, 2013		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount
Technology	$ 3,000,002	$ (450,000)	$ 2,550,002
Trade name	40,000	(30,667)	9,333
	$ 3,040,002	$ (480,667)	$ 2,559,335

For the six months ended June 30, 2014 and 2013, amortization expense was $302,000 and $156,000, respectively.

Note 5 – Commitments

The Company leased its headquarters under the terms of a non-cancelable operating lease agreement that was scheduled to expire in February 2015. Minimum future lease payments under this operating lease were $18,000 per month. The Company terminated this lease effective as of September 30, 2014, and no further amounts are due under the lease subsequent to such date.

Note 6 – Equity:

Preferred Stock

The Company is authorized to issue 8,824,000 shares of preferred stock. The preferred stock may be issued in distinct series, of which there were two authorized as of June 30, 2014: Series A preferred stock, 3,024,000 shares, all of which are issued and outstanding at June 30, 2014; and Series B preferred stock, 5,800,000 shares, of which 5,522,981 are issued and outstanding at June 30, 2014.

On March 1, 2010, the Company issued 3,024,000 shares of $0.0001 par value Series A preferred stock for $1.66667 per share for cash proceeds of $4.9 million, net of issuance costs.

The Company issued Series B preferred stock on April 2, 2013, May 17, 2013, September

27, 2013 and December 23, 2013. In aggregate, the Company issued 5,522,981 shares of $0.0001 par value Series B preferred stock in 2013 for $1.83325 per share for cash proceeds of $7.018 million, net of issuance costs, and a technology license with a fair market value of $3.0 million. In January 2014, the Company issued an additional 204,555 shares of $0.0001 par value Series B preferred stock for $1.83325 per share for cash proceeds of $375,000 in connection with the December 23, 2013 issuance of Series B preferred stock.

The following is a summary of the rights and preferences of the classes of preferred stock as of June 30, 2014:

Dividends – Preferred stock holders are entitled to receive dividends on a pari passu basis in regards to each series of preferred stock, and out of any assets legally available, when and if declared by the board of directors in an amount equal to 8% to their respective original issue price per share. The dividends are not cumulative and are paid when and if declared by the board of directors. If, after dividends in the full preferential amount have been paid or set apart for payment in any calendar year, the board of directors declares additional dividends out of funds legally available in that calendar year, then such additional dividends will be declared pro rata on the common stock and each series of preferred stock, as converted, on a pari passu basis according to the number of shares of common stock held by such holders.

Liquidation preferences – In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or any deemed liquidation event, before any payment is made to the holders of common stock, preferred stock holders are entitled to be paid out of the funds and assets available for distribution to it stockholders, on a pari passu basis in regards to each series of preferred stock, an amount per share equal to the greater of (1) the original issue price for each respective series of preferred stock, plus any dividends declared but unpaid thereon, or (b) such amount per share as would have been payable had all shares of such series of preferred stock been converted into common stock immediately prior to such liquidation, dissolution, winding up or deemed liquidation event. If upon any such liquidation, dissolution, winding up or deemed liquidation event, the funds and assets available for distribution to the stockholders of the Company are insufficient to pay the holders of shares of preferred stock the full amounts, the holders of shares of preferred stock shall share ratably in any distribution of the funds and assets available for distribution in proportion to the respective amounts that would otherwise be payable in respect of the shares of each series of preferred stock held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full. The remaining funds and assets available for distribution to the stockholders will be distributed among the holders of share of common stock on a pro rata basis.

Conversion rights – Each share of a series of preferred stock shall be convertible, at the option of the holder, at any time, and without the payment of additional consideration by the holder, on a one-to-one basis, subject to adjustment for stock splits, dilutive issuances and similar events.

Voting rights - The holders of common stock and each series of preferred stock vote together as a single class and not as separate classes. Each holder of preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which the shares of each series of preferred stock held by such holder could be converted as of the record date for determining stockholders entitled to vote on such matter. The holders of shares of preferred stock shall be entitled to vote on all matters on which the common stock shall be entitled to vote. In addition, certain actions, such as adverse changes to the rights, preferences or privileges of a series of preferred stock, may require the consent of holders of a specified percentage of shares of such series.

Common Stock

On March 1, 2010, the Company issued 6,000,000 shares to its founders of $0.0001 par value common stock at $0.01 in exchange for an Intellectual Property license and Technology licenses with a fair market value of $60,000. During 2011 and 2012, the Company redeemed and cancelled 1,233,348 of the common shares at par value. At June 30, 2014, the Company is authorized to issue 15,824,000 shares of common stock, of which 4,786,090 are issued and outstanding.

Note 7 – Stock-based compensation:

Under the Company’s 2010 Incentive Award Plan (“2010 Plan”), the administrator of the plans, which is the compensation committee of the board of directors, may grant up to 1,733,336 stock options to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified at the discretion of the administrator. Under the Company’s 2013 Incentive Award Plan (“2013 Plan”), the administrator of the plan, which is the compensation committee of the board of directors, may grant up to 2,008,562 stock options to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified at the discretion of the administrator. The shares include 1,235,412 shares plus up to 773,150 shares subject to outstanding options under the 2010 Plan. On April 3, 2014, the board of directors increased the shares issuable under the 2013 Plan by 2,406,081.

Stock option activity is as follows:

	Number of options outstanding
Outstanding at December 31, 2013	1,255,024
Options granted	2,804,565
Options forfeited	(3,000)
Outstanding at June 30, 2014	4,056,589

Stock-based compensation expense for the six months ended June 30, 2014 and 2013 was $185,293 and $14,756, respectively.

Note 8 – Subsequent events

On August 8, 2014, Demand Media, Inc. (“Demand Media”) acquired all of the outstanding stock of the Company (the “Merger”), pursuant to an Agreement and Plan of Merger, dated as of August 8, 2014. After giving effect to working capital adjustments as of the closing date, the purchase price consisted of approximately $4.8 million in cash and 1,049,959 shares of Demand Media common stock, valued at approximately $10.3 million based on Demand Media’s stock price on the closing date of the Merger. A portion of the cash purchase price equal to $1.7 million was placed into escrow and can be applied by Demand Media towards satisfaction of post-closing indemnification obligations of the former stockholders of Saatchi Online and/or post-closing adjustments to the purchase price. Any remaining portion of the escrow amount that is not subject to then-pending claims will be paid to the former stockholders of Saatchi Online on the one-year anniversary of the closing of the Merger.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

On August 8, 2014, Demand Media, Inc. (“us”, “we”, “our” or “Demand Media”) acquired Saatchi Online, Inc., a Delaware corporation (“Saatchi Online”), pursuant to an Agreement and Plan of Merger whereby Saatchi Online became a wholly owned subsidiary of Demand Media (the “Merger”). After giving effect to working capital adjustments as of the closing date, the purchase price consisted of approximately $4.8 million in cash and 1,049,959 shares of our common stock, valued at approximately $10.3 million based on Demand Media’s stock price on the closing date of the Merger. A portion of the cash purchase price equal to $1.7 million was placed into escrow and can be applied by us towards satisfaction of post-closing indemnification obligations of the former stockholders of Saatchi Online and/or post-closing adjustments to the purchase price. Any remaining portion of the escrow amount that is not subject to then-pending claims will be paid to the former stockholders of Saatchi Online on the one-year anniversary of the closing date of the Merger.

The following unaudited pro forma condensed consolidated financial information (“pro forma financial information”) is based on our and Saatchi Online’s historical consolidated financial statements and the accompanying notes, and has been prepared to illustrate the effects of our acquisition of Saatchi Online.

On August 1, 2014, we completed the separation of Rightside Group, Ltd. (“Rightside”) from Demand Media (the “Separation”). Following the Separation, Rightside owns and operates the domain name services business that was previously part of Demand Media. The pro forma financial information includes adjustments to our historical financial results to reflect the Separation, including the distribution by us to Rightside of all the assets and liabilities that comprised our domain name services business via a tax-free dividend involving the distribution on August 1, 2014 of all outstanding shares of Rightside common stock to holders of record of our common stock as of the close of business, New York City time, on July 25, 2014 (the “Distribution”), and costs incurred in connection with the Distribution. The pro forma financial information also includes adjustments to our historical financial results to reflect the 1-for-5 reverse stock split of our common stock effected on August 1, 2014, immediately following the Distribution.

The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2014 and the year ended December 31, 2013 give effect to the Merger and Separation as if they had taken place on January 1, 2013. The unaudited pro forma condensed consolidated balance sheet as of June 30, 2014 gives effect to the Merger and Separation as if they had occurred on June 30, 2014.

The pro forma financial information has been prepared for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have actually occurred if the Merger and/or Separation had been completed at or as of the dates indicated, nor is it indicative of the future operating results or financial position of the combined company. The pro forma financial information does not reflect future nonrecurring charges resulting from the Merger or costs that may be incurred related to the planned integration of Saatchi Online into Demand Media, nor does it reflect the potential realization of cost savings from operating synergies. In addition, the pro forma financial information does not reflect actions that may be undertaken by management after the Merger.

The pro forma financial information reflects our preliminary purchase price allocation for the Merger consideration. The final allocation may be different than the estimates used in this filing. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in connection with the pro forma financial information.

The accompanying pro forma financial information should be read in conjunction with our historical consolidated financial statements and the accompanying notes included in our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 17, 2014, and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 filed with the SEC on August 11, 2014, as well as Saatchi Online’s historical consolidated financial statements and accompanying notes, which are included as Exhibit 99.1 and Exhibit 99.2 in this Current Report on Form 8-K/A.

Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of June 30, 2014
(in thousands)

	Demand Media, Inc.	Rightside Group, Ltd. (A)	Saatchi Online, Inc.	Pro Forma Adjustments	Ref.	Pro Forma Demand Media, Inc.
Assets						
Current assets						
Cash and cash equivalents	$ 131,588	$ (25,000)	$ 987	$ (4,794)	B	$ 102,620
				(161)	C(iii)	
Accounts receivable, net	27,608	(10,533)	21	(4)	C(iii)	17,092
Prepaid expenses and other current assets	8,022	(3,331)	79	1,638	C(iii)	6,408
Deferred registrations costs	73,708	(73,708)	-	-		-
Assets held-for-sale	18,038	-	-	-		18,038
Total current assets	258,964	(112,572)	1,087	(3,321)		144,158
Deferred registrations costs, less current portion	14,037	(14,037)	-	-		-
Property plant and equipment, net	37,132	(12,788)	217	(130)	C(iii)	24,431
Intangible assets, net	76,707	(22,149)	2,257	3,268	B	60,083
Goodwill	334,882	(103,042)	-	10,397	B	242,237
Other assets	26,995	(25,053)	39	-		1,981
Total assets	$ 748,717	$ (289,641)	$ 3,600	$ 10,214		$ 472,890
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	$ 9,825	$ (6,267)	$ 1,415	$ (689)	C(iii)	4,284
Accrued expenses and other current liabilities	38,607	(20,133)	556	2,263	C(iii)	21,293
Deferred tax liabilities	22,431	(22,431)	-	-		-
Deferred revenue	94,572	(91,319)	408	(397)	C(iii)	3,264
Liabilities related to assets held-for-sale	616	-	-	-		616
Total current liabilities	166,051	(140,150)	2,379	1,177		29,457
Deferred revenue, less current portion	18,747	(18,428)	-	-		319
Other liabilities	10,105	9,898	-	-		20,003
Long-term debt	73,750	-	-	-		73,750
Total stockholders' equity	480,064	(140,961)	1,221	9,037		349,361
Total liabilities and stockholders' equity	$ 748,717	$ (289,641)	$ 3,600	$ 10,214		$ 472,890

Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Six Months Ended June 30, 2014
(in thousands, except per share data)

	Demand Media, Inc.	Rightside Group, Ltd. (A)	Saatchi Online, Inc.	Pro Forma Adjustments	Ref.	Pro Forma Demand Media, Inc.
Service revenue	$ 166,046	$ (91,384)	$ 1,574	$ -		$ 76,236
Product revenue	13,472	-	409	-		13,881
Total revenue	179,518	(91,384)	1,983	-		90,117
Operating expenses:						
Service costs	100,406	(78,776)	1,020	-		22,650
Product costs	10,001	-	204	-		10,205
Sales and marketing	15,728	(4,964)	1,739	-		12,503
Product development	21,328	(6,871)	929	-		15,386
General and administrative	36,448	(16,981)	2,271	(11)	C(i)	21,727
Amortization of intangible assets	21,414	(3,599)	-	131	C(i)	17,946
Interest (income) expense	1,694	-	-	-		1,694
Other (income) expense, net	(1,239)	1,297	14	-		72
Gain on other assets, net	(5,747)	5,747	-	-		-
Income (loss) before income taxes	(20,515)	12,763	(4,194)	(120)		(12,066)
Income tax expense	(4,774)	(4,287)	(1)	-		(9,062)
Net income (loss)	$ (25,289)	$ 8,476	$ (4,195)	$ (120)		$ (21,128)
Net income (loss) per share - basic	$ (1.39)					$ (1.10)
Net income (loss) per share - diluted	$ (1.39)					$ (1.10)
Weighted average number of shares - basic	18,229			1,050	B	19,279
Weighted average number of shares - diluted	18,229			1,050	B	19,279

Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the Year Ended December 31, 2013
(in thousands, except per share data)

	Demand Media, Inc.	Rightside Group, Ltd. (A)	Saatchi Online, Inc.	Pro Forma Adjustments	Ref.	Pro Forma Demand Media, Inc.
Revenue	$ 394,598	$ (185,187)	$ 2,456	$ -		$ 211,867
Operating expenses:						
Service costs	204,763	(144,213)	1,392	-		61,942
Sales and marketing	46,445	(9,841)	2,314	-		38,918
Product development	44,187	(11,496)	1,209	-		33,900
General and administrative	69,045	(19,682)	3,214	124	C(i)	56,933
Amortization of intangible assets	44,409	(7,890)	-	262	C(i)	36,781
Interest (income) expense	1,621	15	-	-		1,636
Other (income) expense, net	61	(74)	25	-		12
Gain on other assets, net	(4,232)	4,232	-	-		-
Income (loss) before income taxes	(15,933)	3,762	(5,698)	(386)		(18,255)
Income tax expense	(4,241)	824	(1)	-		(3,418)
Net income (loss)	$ (20,174)	$ 4,586	$ (5,699)	$ (386)		$ (21,673)
Net income (loss) per share - basic	$ (1.14)					$ (1.16)
Net income (loss) per share - diluted	$ (1.14)					$ (1.16)
Weighted average number of shares - basic	17,707			1,050	B	18,757
Weighted average number of shares - diluted	17,707			1,050	B	18,757

NOTES TO THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A – Rightside Group, Ltd. Adjustments

The unaudited pro forma condensed consolidated financial statements reflect the financial impact of the Separation of Rightside from Demand Media on August 1, 2014, based on preliminary estimates that may change as additional information is obtained. The Rightside adjustments include adjustments to reflect (i) the operations, assets, liabilities and equity of Rightside, excluding certain general corporate overhead expenses that were allocated to Rightside in its historical financial statements but that do not specifically relate to Rightside; (ii) the removal of non-recurring transaction costs which were directly related to the Separation, which primarily include accounting, professional and legal fees ($5.7 million and $3.8 million for the year ended December 31, 2013 and the six months ended June 30, 2014, respectively); and (iii) income tax expense and deferred tax balances that approximate what Demand Media would look like on a standalone basis.

Note B - Purchase Price Allocation

The unaudited pro forma condensed consolidated financial statements have been prepared to illustrate the financial impact of Demand Media's acquisition of Saatchi Online. After giving effect to working capital adjustments as of the closing date, the aggregate amount of consideration paid by Demand Media to acquire Saatchi Online was $15.1 million, which was comprised of $4.8 million of cash and 1,049,959 shares of our common stock, valued at $10.3 million, based on Demand Media's stock price on the closing date of the Merger. A portion of the cash purchase price equal to $1.7 million was placed into escrow and can be applied by Demand Media towards satisfaction of post-closing indemnification obligations of the former stockholders of Saatchi Online and/or post-closing adjustments to the purchase price. Any remaining portion of the escrow amount that is not subject to then-pending claims will be paid to the former stockholders of Saatchi Online on the one-year anniversary of the closing date of the Merger.

The Merger has been accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total preliminary purchase price was allocated to Saatchi Online's net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of August 8, 2014, the closing date of the Merger. The excess of purchase consideration over the net tangible and intangible assets is recorded as goodwill. Management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions and are subject to change pending finalization of the valuations. The pro forma adjustments to reflect assets acquired and liabilities assumed at preliminary estimated fair values and the resulting goodwill are as follows (in thousands):

Assets and liabilities assumed:	
Cash and cash equivalents	$ 826
Other assets	160
Accounts payable	(726)
Other liabilities	(1,119)
Deferred liability	(11)
Intangible assets acquired:	
License agreement	312
Artist relationships	2,615
Developed technology	2,598
Goodwill created by the Merger	10,397
Total purchase price	$ 15,052

Based on review of Saatchi Online's summary of significant accounting policies disclosed in its 2013 financial statements, as well as preliminary discussions with Saatchi Online's management, the nature and amount of any adjustments to conform the two companies' accounting policies were not significant.

Note C - Pro Forma Adjustments

The following is a summary of the pro forma adjustments reflected in the unaudited pro forma condensed consolidated financial statements based on preliminary estimates, which may change as additional information is obtained:

(i) - Amortization expense

The estimated increase in amortization expense is primarily related to certain intangible assets acquired from Saatchi Online, which primarily consist of a license agreement, artist relationships and developed technology, amortized over an estimated average useful life of 5 years. Adjustments were made to our amortization of intangible assets to reflect total increased amortization expense of $0.4 million for the six months ended June 30, 2014 and $0.8 million for the year ended December 31, 2013.

(iii) - Working capital adjustment

Reflects the adjustments of net assets and liabiltites of Saatchi between June 30, 2014 and the merger date.