

EXHIBIT B

POLITICONEWYORK
PLAYBOOK
 AZI PAYBARAH AND JIMMY VIELKIND'S
 MUST READ BRIEFING FOR
 KNOWLEDGEABLE NEW YORKERS.

DELIVERED DAILY TO YOUR INBOX ▶

POLITICOMEDIA beta

POLITICO Media ▶

PRO ▶ 🔍 🐦 📺

Unsealed tax returns offer peek into Gawker's finances

POLITICONEWYORK
PLAYBOOK
 AZI PAYBARAH AND JIMMY VIELKIND'S MUST READ
 BRIEFING FOR KNOWLEDGEABLE NEW YORKERS.

DELIVERED DAILY TO YOUR INBOX ▶

MOST POPULAR

- 1 Las Vegas Review-Journal columnist resigns
- 2 Esquire removes satirical article after criticism
- 3 Can Gannett pry Michael Ferro from Tribune chair?
- 4 Vice hires NBC News veteran to lead daily HBO newscast
- 5 Publishing start-up Slant News stops publishing



Denton and Daulerio at trial. (Stephen Yang/New York Post via AP)

By  PETER STERNE 10:29 a.m. May 2, 2016

PHOTO BY STEPHEN YANG

In 2012, Gawker Media, LLC reported nearly \$25.6 million in revenue, but had a net loss of \$120,000 and owed nothing in taxes, according to the company's corporate income tax return for that year.

The tax returns, filed with a Florida court as part of Hulk Hogan's invasion of privacy lawsuit, were originally placed under seal, but were released to the public last week. The court also released the company's 2011 and 2013 tax records, as well as personal tax filings and bank account statements from Gawker CEO Nick Denton and former Gawker.com editor A.J. Daulerio, who were named as defendants in the suit.

Gawker's tax returns offer a rare look into the closely-held company's financials, revealing that the company had decent revenue but little to no profit, possibly by design. It also sheds some light on Gawker's complex corporate structure, which involves a parent company based in the Cayman Islands and a sister company based in Hungary, the birthplace of Denton's mother.

In 2011, Gawker Media, LLC — the U.S. company that employs all the writers and editors — reported \$23 million in revenue and \$1.3 million in profit, giving it a corporate income tax bill of slightly less than \$460,000.

MORE ON POLITICO

- POLITICO Media Pro: Redstone trial

Gawker's largest expense was employee compensation — almost \$8 million in employee salaries, plus \$200,000 for Denton and

begins—the Megyn Kelly effect

- Tribune's anti-Gannett strategy: Tronc, the Lagos Gambit and stalling
- Stressing 'company loyalty' Las Vegas Review-Journal threatens to fire staff who share internal information

\$293,606 for COO Gaby Darbyshire. Other major expenses in 2011 included consulting (\$1.5 million), computer expenses (\$1.3 million) and advertising (\$1 million).

One of its largest expenses was a bit more mysterious. The company paid \$4.2 million in royalties to Blogwire Hungary, its sister company in Hungary.



To understand that payment, you have to understand Gawker's corporate structure. Felix Salmon, then author of the Counterparties finance blog at Reuters, reported in 2010 that Gawker Media, LLC does not own its intellectual property or technological infrastructure, instead licensing them from its Hungarian sister company. Salmon speculated

that this was a way to minimize its U.S. taxes.

"The result is a company where 130 U.S. employees eat up the lion's share of the the U.S. revenues, resulting in little if any taxable income, while the international income, the franchise value of the brands, and the value of the technology all stays permanently overseas, untouched by the I.R.S." he wrote.

Hogan's legal team has publicly suggested that Gawker is hiding money overseas.

"In my opinion, it's very hypocritical that Mr. Denton continues to cloak himself in the Constitution while it also appears he's expatriating great sums of money to Eastern Europe, potentially to avoid taxation and creditor issues," Hogan lawyer David Houston told *The New York Post* a few weeks ago.

In a statement, Gawker defended its presence in Hungary.

"There are actual operations with 30 employees overseas and everything about the financial structure is proper and not unusual despite what Hulk Hogan imagines," the company said.

Blogwire, which was renamed Kinja Kft in 2013, owns Gawker's intellectual property (the brands and website addresses) and the technology platform that it uses to publish its content. The company employs a few dozen engineers. Gawker Media is Kinja's client; Gawker pays a few million dollars per year to license the Gawker brand and the Kinja technology.

Gawker president Heather Dietrick told POLITICO that the royalty fee that the company pays to Kinja is not arbitrary, but was determined following an exhaustive study conducted by Mayer Brown, an independent law firm, into the market value of the services that Kinja provides to Gawker.

In 2012, Gawker Media reported \$25 million in revenue but actually lost money, reporting a net loss of about \$120,000. Since it made no profit, it did not have to pay any corporate income taxes. Once again, the largest expense was compensation — about \$10.7 million for employee salaries, \$382,935 for Denton and \$301,084 for Darbyshire. It

paid \$4.6 million to Blogwire, while also borrowing \$1.2 million from the Hungarian company. Other big expenses included consulting (\$1.7 million), computer expenses (\$1.4 million) and advertising (\$1.3 million).

In 2013, Gawker Media reported \$34.8 million in revenue and returned to the black, with about \$805,000 in taxable income. It had to pay \$274,000 in corporate income taxes. Its largest expense continued to be compensation — about \$12.6 million for employee salaries, \$500,487 for Denton and \$226,698 for new COO Scott Kidder. It also spent big on consulting (\$2.2 million), advertising \$2.1 million, online expenses (\$1.5 million) and legal fees (\$1.3 million).

In 2013, Gawker paid \$6.7 million in service fees to Kinja Kft. It also borrowed about \$4.6 million from Kinja.

The tax returns also reveal that Gawker had an interest in Curbed, the blog network founded by Gawker editor Lockhart Steele that Vox Media acquired in 2013. In 2011 and 2012, Gawker's stake in Curbed was valued at roughly \$40,000.

Though Gawker's 2014 tax returns were not included in the cache of documents released this week, Gawker announced last year that its combined revenue (for both Gawker Media, LLC and Kinja Kft) in 2014 had been \$44.3 million and its combined profit had been \$6.53 million.

As for 2015, two sources close to Gawker told POLITICO, the company suffered a net loss due to legal fees and the cost of its new office.

MORE: MEDIA BLOGWIRE HUNGARY DIGITAL MEDIA GABY DARBYSHIRE GAWKER GAWKER MEDIA HEATHER DIETRICK HULK HOGAN KINJA NICK DENTON SCOTT KIDDER TAX EVASION TAXES

Back

 Author: **PETER STERNE** FOLLOW THE REPORTER



MORE IN MEDIA



POLITICO Media Pro: Redstone trial begins—the Megyn Kelly effect

AROUND THE WEB

Sponsored Links by Taboola 



What Is Making B2B Marketers Change Their Minds About Facebook?



How I Finally Understood My 401(k)... in 10 minutes



Homeowners Born Between 1951-1981 Are In For A Big Surprise



Travel For Work? Earn \$50 On Your Next Trip For A Big Surprise

MORE FROM POLITICO



Assembly Dems end talks for weekend without deal



A day of chaos and confusion in Trenton over Atlantic City



Tribune's anti-Gannett strategy: Tronc, the Lagos Gambit and stalling



Unlikely to pass AC bill, Prieto calls off Assembly voting session stalling