

EDGEWATER PRIVATE EQUITY FUND III, L.P.

INVESTMENT SUMMARY
FOR THE QUARTER ENDED DECEMBER 31, 2014

COMPANY

SUMMARIES

[REDACTED]

Business Description:	Wireless Media
Sector of Investment:	Communications
Investment:	400,000 Series A Preferred 23,182 Series B Preferred 61,595 Series C Preferred 5,505 Common Shares
Cost:	\$6,079,783
Returned:	\$215,426

INVESTMENT PROFILE:

Headquartered in suburban Philadelphia, PA, [REDACTED] is a global provider of mobile software products that improve the performance of an organization's supply chain, logistics and field services operations. The Company serves more than 300 global customers spanning across 20 countries and multiple vertical markets, supporting more than \$165 billion in transactions yearly. [REDACTED] cloud-based products are easy to deploy and work with any mobile device and any carrier. The Perform® product line combines the Company's Mobile Performance Platform™ with industry-specific features and functionality. This combination enables [REDACTED] to deliver highly targeted, proven products to address the specific challenges and goals of each market. [REDACTED] products drive improved operational efficiencies and productivity to help customers measurably reduce costs, improve service delivery and increase customer retention.

RECENT DEVELOPMENTS:

[REDACTED] was acquired by [REDACTED] a global leader in logistics, on November 19, 2014. [REDACTED] Board of Directors considered the financial condition, industry environment, and numerous strategic alternatives in determining that an overlapping customer base with [REDACTED] provides the Company with an opportunity to reach a broader channel of potential clientele while streamlining and augmenting services offered to existing clientele. [REDACTED] specialization in mobilizing the logistics process is expected to play a key role in enhancing [REDACTED] existing transportation management platforms.

As a result of the acquisition, the Fund's investment in the Company was liquidated. Proceeds of \$215,426 were received for Series C shares while the remainder of the shares held were written off. This will be the final portfolio company summary for [REDACTED]

Business Description: Licensed Digital Music Provider
 Sector of Investment: Business Products and Services
 Investment: 87,930 Common Shares
 806,204 Series AA
 Cost: \$3,096,512
 12/31/14 Value: \$1,177,000
 Ownership Percentage: 2.13%

INVESTMENT PROFILE:

provides branded video (digital signage), audio (music and messaging), entertainment media, audio/video systems and professional services that deliver compelling experiences for retail, hospitality, health and fitness, retail banking and other businesses. The service is managed by through a strategic relationship with. In addition, partners with over 350 brands in 85,000 locations and provides services in over 110 countries.

RECENT DEVELOPMENTS:

Revenue for the third fiscal quarter increased by 19% to \$22.2 million compared to the prior year period. For the nine month period ended December 31, 2014, revenue increased 12% compared to the prior year period. Revenue growth was driven by management's strategic focus on added value solutions. brand development agency A440 provides unique insight into consumer behavior, positioning the Company to deliver tailored services to its customer base. The customizable music deployment ecosystem Curio offers exclusive solutions to content distribution via compatibility with a wide range of differing technology platforms.

EBITDA for the third fiscal quarter was \$1.1 million, an increase of 56% compared to the same period in the prior fiscal year. Fiscal year 2015 continues to show profitability growth with an increase of 9% in year to date EBITDA from prior year. The increase in profitability year-over-year is attributable to the pursuit of international business and investment in technology infrastructure, which increased the scalability of the business.

**For Fiscal Year
04/01/14 – 03/31/15**

<i>(As of 12/31/14)</i>	Fiscal	Fiscal		Fiscal YTD	Fiscal YTD	
<i>(\$ in 000's)</i>	Q3 '15	Q3 '14	Variance	2015	2014	Variance
	<i>(Oct-Dec)</i>	<i>(Oct-Dec)</i>		<i>(April-Dec)</i>	<i>(April-Dec)</i>	
Revenue	\$22,216	\$18,599	\$3,617	\$64,447	\$57,434	\$7,013
Gross Profit	9,455	8,478	977	28,655	25,709	2,946
OPEX (Incl. D&A)	9,548	8,649	(899)	28,713	25,306	(3,407)
EBITDA	1,101	706	395	3,620	3,333	287

[REDACTED]

Business Description: Video Service Provider

Sector of Investment: Business Products and Services

Investment: 63,528 Common
338,000 Series A-1 Preferred

Cost: \$1,131,000

12/31/14 Value: \$498,000

Ownership Percentage: 1.36%

INVESTMENT PROFILE:

[REDACTED] provides a technology-based service that enables television advertisers to produce and deliver advertising with targeting capabilities that have never before been available in the television medium. [REDACTED] is developing the distribution system through partnerships with television networks, Cable MSO's, and set top box manufacturers. [REDACTED] is backed by world-class financial and strategic investors, including WPP (parent company of J. Walter Thompson, Ogilvy & Mather, and Young & Rubicam advertising agencies) and Grey Advertising, who have been instrumental in guiding the company's development and marketing efforts. [REDACTED] helps over 300 advertisers target consumers in approximately 80% of U.S. cable homes, and has begun to expand its capabilities to emerging video platforms.

RECENT DEVELOPMENTS:

[REDACTED] full year 2014 revenue increased 97% from 2013 and gross profit increased 42% over the same period. Gross margin decreased to 44% for the year compared to 60% in the prior year period driven by the growth of the [REDACTED] product line, which has a lower gross margin relative to other lines. The Company reported increased operating expenses related to investment in employees specializing in two product lines, [REDACTED] and [REDACTED] which are expected to drive future revenue growth. The higher total revenue offset by lower margin and an increase in operating expenses resulted in an EBITDA loss of \$0.9 million for the year compared to a loss of \$0.1 million in the prior year period.

<i>(As of 12/31/14)</i>	Q4 '14	Q4 '13		YTD	YTD	
<i>(\$ in 000's)</i>	<i>(Oct-Dec)</i>	<i>(Oct-Dec)</i>	Variance	2014	2013	Variance
				<i>(Jan-Dec)</i>	<i>(Jan-Dec)</i>	
Revenue	\$11,104	\$7,839	\$3,265	\$41,001	\$20,834	\$20,167
Gross Profit	5,128	4,075	1,053	17,918	12,579	5,339
OPEX (Incl. D&A)	5,521	3,576	(1,945)	18,819	12,697	(6,122)
EBITDA	(393)	498	(891)	(901)	(118)	(783)

EDGEWATER

FINANCIAL STATEMENTS

EDGEWATER PRIVATE EQUITY FUND III, LP

BALANCE SHEET AS OF DECEMBER 31, 2014

ASSETS	
Investment in portfolio securities, at fair value	\$ 1,857,126
Cash	434,905
TOTAL ASSETS	\$ 2,292,031
LIABILITIES AND PARTNERS' EQUITY	
LIABILITIES: ACCRUED EXPENSES & PAYABLES	\$ 24,825
PARTNERS' EQUITY	
General partner	(11,571,530) *
Limited partners	13,838,736 **
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ 2,292,031

*If the Partnership was liquidated on December 31, 2014, the General Partner's negative equity balance would be allocated to the equity accounts of the Limited Partners, resulting in total Limited Partner equity of \$2,267,206 available for distribution on the basis of ownership.

**At December 31, 2014, the General Partner had a limited partnership interest in the Partnership with a negative equity balance of (\$7,136,325)

EDGEWATER PRIVATE EQUITY FUND III, LP

PROFIT AND LOSS STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2014

Income	
Interest Income – Portfolio Securities	\$ 10,308
Total investment income	<u>\$ 10,308</u>
Expenses	
Management fee	\$ -
Professional fees	36,972
Other expenses	28,315
Total expenses	<u>65,287</u>
Net investment loss	<u>\$ (54,979)</u>
Net realized loss and change in unrealized gains (losses) on investments in portfolio securities:	
Net realized loss on investments in portfolio securities	\$ (5,864,357)
Net change in unrealized appreciation of investments in portfolio securities	5,714,783
Net loss on investment securities	<u>\$ (149,574)</u>
Net decrease in partners' equity from operations	<u>\$ (204,553)</u>



EDGEWATER PRIVATE EQUITY FUND III, L.P.

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

EDGEWATER PRIVATE EQUITY FUND III, L.P.

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KPMG LLP
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Independent Auditors' Report

The Partners
Edgewater Private Equity Fund III, L.P.:

We have audited the accompanying financial statements of Edgewater Private Equity Fund III, L.P., which comprise the statements of assets, liabilities, and partners' equity, including the schedules of investments, as of December 31, 2014 and 2013, and the related statements of operations, changes in partners' equity, cash flows, and the financial highlights for the years 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 financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Edgewater Private Equity Fund III, L.P. as of December 31, 2014 and 2013, and the results of its operations, changes in its partners' equity, its cash flows, and the financial highlights for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

April 16, 2015
Chicago, Illinois

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Statements of Assets, Liabilities, and Partners' Equity

December 31, 2014 and 2013

Assets	2014	2013
Investments in portfolio securities, at fair value (note 2):		
Equity securities (cost: \$4,227,512 and \$10,307,295, respectively)	\$ 1,675,000	2,040,000
Debt securities (cost: \$0 and \$0, respectively)	182,126	171,818
	<u>1,857,126</u>	<u>2,211,818</u>
Cash and cash equivalents	434,905	285,058
	<u>\$ 2,292,031</u>	<u>2,496,876</u>
Liabilities and Partners' Equity		
Liabilities:		
Accrued expenses and payables	\$ 24,825	25,117
Total liabilities	<u>24,825</u>	<u>25,117</u>
Partners' equity:		
General partner	(11,571,530)	(11,571,530)
Limited partners	13,838,736	14,043,289
Total partners' equity	<u>2,267,206</u>	<u>2,471,759</u>
	<u>\$ 2,292,031</u>	<u>2,496,876</u>

See accompanying notes to financial statements.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Schedule of Investments (1)

December 31, 2014

<u>Shares/par</u>	<u>Investment</u>	<u>Fair value</u>
	Common stocks (10.01% of partners' equity):	
	Information Technology:	
87,930	██████████ 5.73% of partners' equity)	\$ 130,000
63,528	██████████ (4.28% of partners' equity)	97,000
	Total common stocks (cost \$962,000)	<u>227,000</u>
	Preferred stocks (63.87% of partners' equity):	
	Information Technology:	
806,204	██████████ 46.18% of partners' equity)	1,047,000
338,000	██████████ (17.69% of partners' equity)	401,000
	Total preferred stocks (cost \$3,265,512)	<u>1,448,000</u>
	Total equity securities (cost \$4,227,512)	<u>1,675,000</u>
	Debt securities (8.03% of partners' equity):	
182,126	IT Solutions	<u>182,126</u>
	Total debt securities (cost \$0)	<u>182,126</u>
	Total investments (81.91% of partners' equity) (cost \$4,227,512)	<u>\$ 1,857,126</u>

Schedule of Investments (1)

December 31, 2013

<u>Shares/par</u>	<u>Investment</u>	<u>Fair value</u>
	Common stocks (7.97% of partners' equity):	
	Information Technology:	
5,505	██████████ 0.00% of partners' equity)	\$ —
87,930	██████████ 5.06% of partners' equity)	125,000
63,528	██████████ (2.91% of partners' equity)	72,000
	Total common stocks (cost \$962,000)	<u>197,000</u>
	Preferred stocks (74.56% of partners' equity):	
	Information Technology:	
484,777	██████████ 12.95% of partners' equity)	320,000
806,204	██████████ 41.87% of partners' equity)	1,035,000
338,000	██████████ (19.74% of partners' equity)	488,000
	Total preferred stocks (cost \$9,345,295)	<u>1,843,000</u>
	Total equity securities (cost \$10,307,295)	<u>2,040,000</u>
	Debt securities (6.95% of partners' equity):	
171,818	IT Solutions	<u>171,818</u>
	Total debt securities (cost \$0)	<u>171,818</u>
	Total investments (89.48% of partners' equity) (cost \$10,307,295)	<u>\$ 2,211,818</u>

(1) The above investments are in United States enterprises.

See accompanying notes to financial statements.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Statements of Operations

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Investment income:		
Interest income – portfolio securities	\$ 10,308	9,724
Total investment income	<u>10,308</u>	<u>9,724</u>
Expenses:		
Professional fees	36,972	48,961
Other expenses	<u>28,315</u>	<u>37,178</u>
Total expenses	<u>65,287</u>	<u>86,139</u>
Net investment loss	<u>(54,979)</u>	<u>(76,415)</u>
Net realized and unrealized gains (losses) on investments in in portfolio securities:		
Net realized (loss) gain on investments in portfolio securities	(5,864,357)	728,997
Net change in unrealized appreciation (depreciation) of investments in portfolio securities	<u>5,714,783</u>	<u>(1,462,161)</u>
Net loss on investment securities	<u>(149,574)</u>	<u>(733,164)</u>
Net decrease in partners' equity resulting from operations	<u>\$ (204,553)</u>	<u>(809,579)</u>

See accompanying notes to financial statements.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Statements of Changes in Partners' Equity

Years ended December 31, 2014 and 2013

	<u>General partner</u>		<u>Limited partners</u>		<u>Total</u>
Balance at December 31, 2012	\$ (11,571,530)		16,957,800		5,386,270
Partner contributions	—		6,347		6,347
Partner distributions	—		(2,111,279)		(2,111,279)
Net decrease in partners' equity resulting from operations	—		<u>(809,579)</u>		<u>(809,579)</u>
Balance at December 31, 2013	(11,571,530) (1)		14,043,289 (2)		2,471,759
Net decrease in partners' equity resulting from operations	—		<u>(204,553)</u>		<u>(204,553)</u>
Balance at December 31, 2014	\$ <u>(11,571,530) (3)</u>		<u>13,838,736 (4)</u>		<u>2,267,206</u>

(1) If the Partnership was liquidated on December 31, 2013, the General Partner's negative equity balance would be allocated to the equity accounts of the Limited Partners, resulting in total Limited Partners' equity of \$2,471,759 available for distribution.

(2) At December 31, 2013, the General Partner had a limited partnership interest in the Partnership with a negative equity balance of \$(7,126,122).

(3) If the Partnership was liquidated on December 31, 2014, the General Partner's negative equity balance would be allocated to the equity accounts of the Limited Partners, resulting in total Limited Partners' equity of \$2,267,206 available for distribution.

(4) At December 31, 2014, the General Partner had a limited partnership interest in the Partnership with a negative equity balance of \$(7,136,325).

See accompanying notes to financial statements.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net decrease in partners' equity resulting from operations	\$ (204,553)	(809,579)
Adjustments to reconcile net decrease in partners' equity resulting from operations to net cash provided by operating activities:		
Net realized loss (gain) on investments in portfolio securities	5,864,357	(728,997)
Net change in unrealized (appreciation) depreciation of investments in portfolio securities	(5,714,783)	1,462,161
Proceeds from sales of investments in portfolio securities	215,426	2,220,907
Capitalized interest on debt securities	(10,308)	(9,723)
Change in:		
Accrued dividends receivable	—	30,513
Other assets	—	9,508
Accrued expenses and payables	(292)	(36,702)
Net cash provided by operating activities	<u>149,847</u>	<u>2,138,088</u>
Cash flows from financing activities:		
Partner contributions	—	6,347
Partner distributions	—	(2,111,279)
Net cash used in financing activities	<u>—</u>	<u>(2,104,932)</u>
Net increase in cash and cash equivalents	149,847	33,156
Cash and cash equivalents at beginning of year	<u>285,058</u>	<u>251,902</u>
Cash and cash equivalents at end of year	\$ <u><u>434,905</u></u>	<u><u>285,058</u></u>

See accompanying notes to financial statements.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies and Related Matters

(a) Partnership Operations

Edgewater Private Equity Fund III, L.P. (the Partnership) was formed September 4, 1998 to make private equity and/or subordinated debt investments in a balanced and diversified portfolio of small to medium-sized companies possessing attractive financial conditions and growth opportunities in order to achieve substantial capital appreciation and current income. The Partnership consists of limited partners and a general partner (General Partner), which is Edgewater III Management, L.P. The term of the Partnership was to end on December 31, 2008, unless earlier terminated or extended, subject to certain provisions set forth in the partnership agreement (the Partnership Agreement). The duration of the Partnership has continued in order to allow for the orderly liquidation of the remaining investments.

Upon the liquidation of the Partnership's remaining investments, a final terminating distribution will be made. Estimated remaining expenses will be satisfied by the remaining cash held in the Partnership. Any additional cash received or remaining following payment of wind-down expenses will be distributed on the basis of ownership.

The Partnership, which is an investment company within the scope of Financial Accounting Standards Board (FASB) Accounting Standards Update 2013-08, follows accounting and reporting guidance under FASB Accounting Standards Codification (ASC) Topic 946, *Financial Services – Investment Companies*. The Partnership's financial statements were prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. The most significant estimate is the estimate of the fair value of certain investments, which is subject to significant market risk and could differ materially from amounts reported.

(c) Investments

The valuation of the investments in portfolio securities has been determined by the General Partner in accordance with the recommendations included in the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, *Audits of Investment Companies*, and the FASB ASC Topic 820, *Fair Value Measurements* (as further described in note 2). Any net unrealized appreciation or depreciation of investments is included in the statements of operations. Realization of the carrying value of investments is uncertain and subject to future developments. The fair value reported could materially differ from the estimates presented. Realized investment gains or losses will be determined on the specific-identification method.

(d) Cash and Cash Equivalents

For purposes of cash flows, the Partnership considers all short-term investments with a maturity of three months or less at the date of purchase to be cash equivalents.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

(e) *Partners' Equity*

For 2010 and prior years, income and expenses were allocated to the General Partner and Limited Partners as follows: net realized income and gains from government obligations, certificates of deposit, interest-bearing accounts, bankers' acceptances, certificates and account savings and loan associations, money market fund investments, any other short-term highly liquid investments, and any interest income paid to the Partnership by the original General Partner—99% to the Limited Partners and 1% to the General Partner; net realized and unrealized gains and losses from investments in portfolio securities—80% to the Limited Partners and 20% to the General Partner. Beginning in 2011, all components of income and expenses were allocated to the Limited Partners. In further years, realized and unrealized gains (losses) may be allocated to the General Partner as the Partnership sells its remaining assets.

Net losses include the following allocations of net unrealized appreciation (depreciation) on investments:

	<u>General partner</u>	<u>Limited partners</u>	<u>Total</u>
Allocated for the year ended December 31, 2014	\$ —	5,714,783	5,714,783
Allocated for the year ended December 31, 2013	—	(1,462,161)	(1,462,161)

Offering costs were charged to the partners' capital accounts for financial statement purposes. For income tax purposes, such costs are capitalized until termination of the Partnership. No such costs were incurred during 2014 and 2013.

(f) *Interest and Dividend Income, and Expense Recognition*

Interest income is recorded on the accrual basis. Accrual of interest is ceased when, in the judgment of management, the collectibility of such income is doubtful. An allowance for loss is established to the extent there is doubt as to the collection of the amounts previously accrued. No such reserve for loss was recorded at December 31, 2014 and 2013. Dividends are recognized on the ex-dividend date and accrued until received. Expenses are recorded on an accrual basis as incurred.

(g) *Income Taxes*

The Partnership is taxed as a partnership for U.S. tax purposes. A provision for income taxes is not included in the accompanying financial statements, since the Partnership's income (loss) is allocated to the partners for inclusion in their individual income tax returns. The Partnership has adopted FASB ASC 740-10, which addresses the accounting for uncertainty in income taxes. The Partnership is required to determine whether a tax position of the Partnership is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position. The Partnership has not identified any uncertain tax positions as of December 31, 2014 and 2013. The Partnership's tax returns remain open for examination by tax authorities for a period of three years from when they are filed.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

(2) Investments

Investments are generally stated at fair value as determined by the General Partner; however, investments in securities that are traded in the over the counter market or on a stock exchange are valued at the closing price on the valuation date. Restricted and other securities for which quotations are not readily available are valued at fair value as determined by the General Partner. Among the factors considered in determining the fair value of investments are the cost of the investment; developments, including recent financing transactions, subsequent to the acquisition of the investment; length of the holding period; the financial condition and operating results of the portfolio investment; overall market conditions; and other factors generally pertinent to the valuation of investments.

In the valuation process, the General Partner uses financial information received monthly, quarterly, and annually from its portfolio companies, which includes both audited and unaudited financial statements. This information is used to determine financial condition, performance, and valuation of the portfolio investments.

Amounts reported as realized gains and losses are measured by the difference between the net proceeds of sale or exchange and the cost basis of the investment without regard to unrealized gains or losses reported in prior periods. The cost of securities that have, in the General Partners' judgment, become worthless, are written off and reported as realized losses.

FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value, and requires disclosures about assets and liabilities measured at fair value. The guidance establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or investments for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investments and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation and are based on the General Partner's own assumptions about the assumptions that a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data. Investments that are included in this category generally include corporate private equity and debt securities.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following tables present the investments at fair value as of December 31, 2014 and 2013, by type of investment:

(a) Assets Measured at Fair Value on a Recurring Basis

<u>Description</u>	<u>December 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 1,675,000	—	—	1,675,000
Debt securities	182,126	—	—	182,126
	<u>\$ 1,857,126</u>	<u>—</u>	<u>—</u>	<u>1,857,126</u>

<u>Description</u>	<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 2,040,000	—	—	2,040,000
Debt securities	171,818	—	—	171,818
	<u>\$ 2,211,818</u>	<u>—</u>	<u>—</u>	<u>2,211,818</u>

(b) Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	<u>Equity securities</u>	<u>Debt securities</u>	<u>Total</u>
Beginning balance, December 31, 2013, of Level 3 assets	\$ 2,040,000	171,818	2,211,818
Net realized loss on investments in portfolio securities	(5,864,357)	—	(5,864,357)
Net change in unrealized depreciation of investments in portfolio securities	5,714,783	—	5,714,783
Proceeds from disposal of securities	(215,426)	—	(215,426)
Capitalized interest on debt securities, included in the statements of operations	—	10,308	10,308
Ending balance, December 31, 2014, of Level 3 assets	<u>\$ 1,675,000</u>	<u>182,126</u>	<u>1,857,126</u>

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

	<u>Equity securities</u>	<u>Debt securities</u>	<u>Total</u>
Beginning balance, December 31, 2012, of Level 3 assets	\$ 3,203,667	162,094	3,365,761
Net realized loss on investments in portfolio securities	(1,000,000)	—	(1,000,000)
Net change in unrealized appreciation of investments in portfolio securities	(163,667)	—	(163,667)
Capitalized interest on debt securities, included in the statements of operations	<u>—</u>	<u>9,724</u>	<u>9,724</u>
Ending balance, December 31, 2013, of Level 3 assets	\$ <u>2,040,000</u>	<u>171,818</u>	<u>2,211,818</u>

Net change in unrealized gains or losses, included in the statements of operations for investments in portfolio securities still held at:

December 31, 2014	\$ (45,000)
December 31, 2013	(863,667)

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

(c) *Quantitative Information about Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)*

Quantitative information about Level 3 fair value measurements				
	Fair value at December 31, 2014	Valuation technique	Unobservable input	Range (weighted average)
Equity securities	\$ 1,675,000	Probability – Weighted Expected Return Method (PWERM)	<ul style="list-style-type: none"> • Discount Rate • Probability Percentages for IPO, Sale – High, Sale – Medium, Sale – Low, and Dissolution 	NM *
Debt securities	182,126	Principal plus payment in kind interest	Principal plus payment in kind interest	NM **

* Not meaningful. Under a PWERM, the value of the various equity securities are estimated based upon an analysis of future values for the enterprise, assuming various future outcomes. Share value is based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to the enterprise, as well as the rights of each share class. Although the future outcomes considered in any given valuation model will vary based upon the enterprise's facts and circumstances, common future outcomes modeled might include an IPO, a merger or sale, a dissolution, or continued operation as a private enterprise until a later exit date.

** Debt securities fair value is estimated as the principal balance of the debt plus payment in kind interest accrued. Management has determined that this amount approximates fair value at December 31, 2014.

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

Quantitative information about Level 3 fair value measurements

	Fair value at December 31, 2013	Valuation technique	Unobservable input	Range (weighted average)
Equity securities	\$ 2,040,000	Probability – Weighted Expected Return Method (PWERM)	<ul style="list-style-type: none"> • Discount Rate • Probability Percentages for IPO, Sale – High, Sale – Medium, Sale – Low, and Dissolution	NM *
Debt securities	171,818	Principal plus payment in kind interest	Principal plus payment in kind interest	NM **

* Not meaningful. Under a PWERM, the value of the various equity securities are estimated based upon an analysis of future values for the enterprise, assuming various future outcomes. Share value is based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to the enterprise, as well as the rights of each share class. Although the future outcomes considered in any given valuation model will vary based upon the enterprise's facts and circumstances, common future outcomes modeled might include an IPO, a merger or sale, a dissolution, or continued operation as a private enterprise until a later exit date.

** Debt securities fair value is estimated as the principal balance of the debt plus payment in kind interest accrued. Management has determined that this amount approximates fair value at December 31, 2013.

(3) Management Fee

Edgewater III Management, L.P., as General Partner, is obligated to pay out of the management fee the following operating expenses related to the Partnership's investment activities: salaries and fringe benefits of professional, administrative, clerical, bookkeeping, and secretarial personnel; rent; office equipment; fire, and theft insurance; heat; light; cleaning; power; water and utilities of any office space maintained; stationery; postage; office supplies; telephone and telex; publications; periodicals; expenses of preparing reports; cost of fidelity bonds and other insurance; and any other contingent or miscellaneous expenses. As compensation for management services and the assumption of such operating expenses, the Partnership pays an annual management fee to the General Partner. The annual management fee is 2% of the total committed capital by all partners, payable quarterly in advance. The management fee has decreased annually by 10% of the previous year's rate, starting in the year ending on the seventh anniversary of the final closing date (September 3, 2005). The annual management fee rate was 0.697% for 2014 and 0.775% for 2013. For partners that have committed in excess of \$30 million, the management fee was 1.500% of the total commitment in excess of \$30 million for a period of three years, and 1.250% of the excess amount following such three-year period through the Partnership's dissolution. The General Partner agreed to contribute back \$5 million in management fees over the remaining life of the Partnership commencing on January 1, 2004, of which \$800,000 was contributed through a reduction in management fees annually. The management fee reduction expired March 31, 2010; however, the General Partner extended the \$200,000 per quarter

EDGEWATER PRIVATE EQUITY FUND III, L.P.

Notes to Financial Statements

December 31, 2014 and 2013

management fee reduction through the first half of 2011. For the second half of 2011 and for future years, the annual management fee has been waived by the General Partner. The amount of management fees waived by the General Partner was \$1,246,855 and \$1,385,394 for the years ended December 31, 2014 and 2013, respectively.

(4) Financial Highlights

The Partnership has presented the following disclosures pertaining to Limited Partners for the years ended December 31, 2014 and 2013 as required by the AICPA Audit and Accounting Guide for Investment Companies:

	<u>2014</u>	<u>2013</u>
Net investment loss ratio before net realized gain (loss) on investments and change in unrealized appreciation (depreciation)	(0.39)%	(0.52)%
Expense ratio	(0.47)	(0.59)
Total return	(1.46)	(5.29)

The ratios of net investment loss to average Limited Partners' equity, and total expenses to average Limited Partners' equity and total return are calculated for the Limited Partners as a class. Total return, which reflects the annual change in Limited Partners' equity, was calculated using the change in Limited Partners' equity between the beginning and end of the year plus the cash flows to the Limited Partners during the year. These calculations do not include management fee expense waived for 2014 and 2013. An individual Limited Partner's return may vary from these returns.

(5) Subsequent Events

The Partnership has evaluated subsequent events through April 16, 2015, which is the date the financial statements were available to be issued. No subsequent events requiring recognition or disclosure in the financial statements have been noted by the Partnership.

Edgewater Private Equity Fund III, L.P.
Statement of Partner Capital
as of 12/31/14

PSERS

Beginning Capital 12/31/13	\$	5,624,594
Short-term Income		-
Portfolio Income		2,417
Partnership Expenses		(15,311)
Unrealized Gain/(Loss)		1,340,248
Realized Gain/(Loss)		(1,375,327)
2014 Distributions		-
2014 Contributions		-
Ending Capital 12/31/14	\$	<u><u>5,576,621</u></u>

