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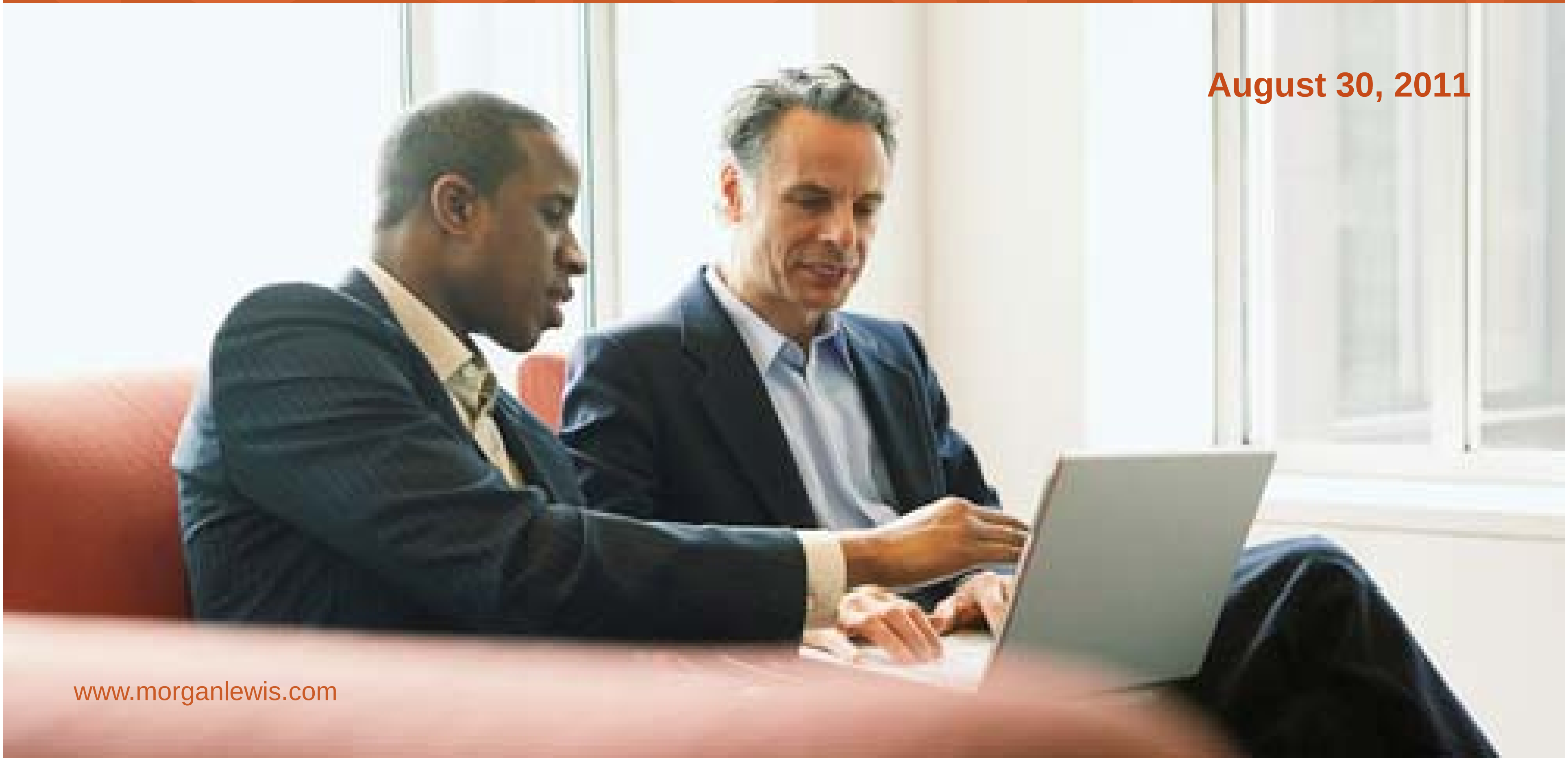
EXIT ISSUES FOR START-UPS



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INCENTIVES FOR STAKEHOLDERS

- There are various incentives and interests to address from a start-up perspective which will favor a sale of the Company versus an investment round for each of the stakeholders below.
- Investors – generally will want to maximize payout value, but may favor an immediate sale if their fund is reaching end of life and they need to take the investment off their books, may favor a subpar return if it is a near term payout versus assuming market risk given a limited time horizon.
- Founders – may favor an equity investment round if they believe buyer will terminate them or is not a good partner, depends on specific control and management issues, accelerating and vesting terms are key.
- Employees – similar issues as the founders but may be more concerned with valuation and payout versus loss of potential upside value, depends on acceleration and vesting terms, place high value on the brand, cachet and commitment of the acquirer to do something significant in the marketplace.
- Third Parties – customers, suppliers, partners, licensors will want to ensure continuity and will be sensitive to acquisitions by competitors.

COMPENSATION ISSUES

- Generally for founders and employees, the loss of long term equity upside in the form of stock options may be an issue that makes an equity investment more attractive.
- A key driver for employees is the potential value of stock option grants in the event of an IPO or trade sale later at a higher value.
- As such, a near term trade sale may be favored if the payout value is sufficient to outweigh risk/reward assessment for a later stage exit.

STRATEGIC AND RESOURCE ISSUES

- In some cases, start-ups may prefer a trade sale to a strategic partner if they are resource constrained or need the market power of a larger partner to compete with key players in the marketplace.
- The post sale corporate structure and management plan are a key concern for founders/managers. If they are confident that they have enough specialized expertise and domain knowledge to continue to be critical to the Company's business, they may see a tradeoff between the strategic benefit of sale versus loss of control.

DISADVANTAGES OF EQUITY INVESTMENT PRIOR TO TRADE SALE

- In certain instances, an equity investment with a right of first refusal and providing a veto on a sale to a strategic investor will have a chilling effect on potential offers.
- In addition, the commercial tie ins with the strategic investors even if on a nonexclusive basis will deter other strategic buyers and could significantly decrease the potential sale value.
- Also, the presence of a corporate investor will make it more difficult in many cases to raise financing from financial investors in the future.

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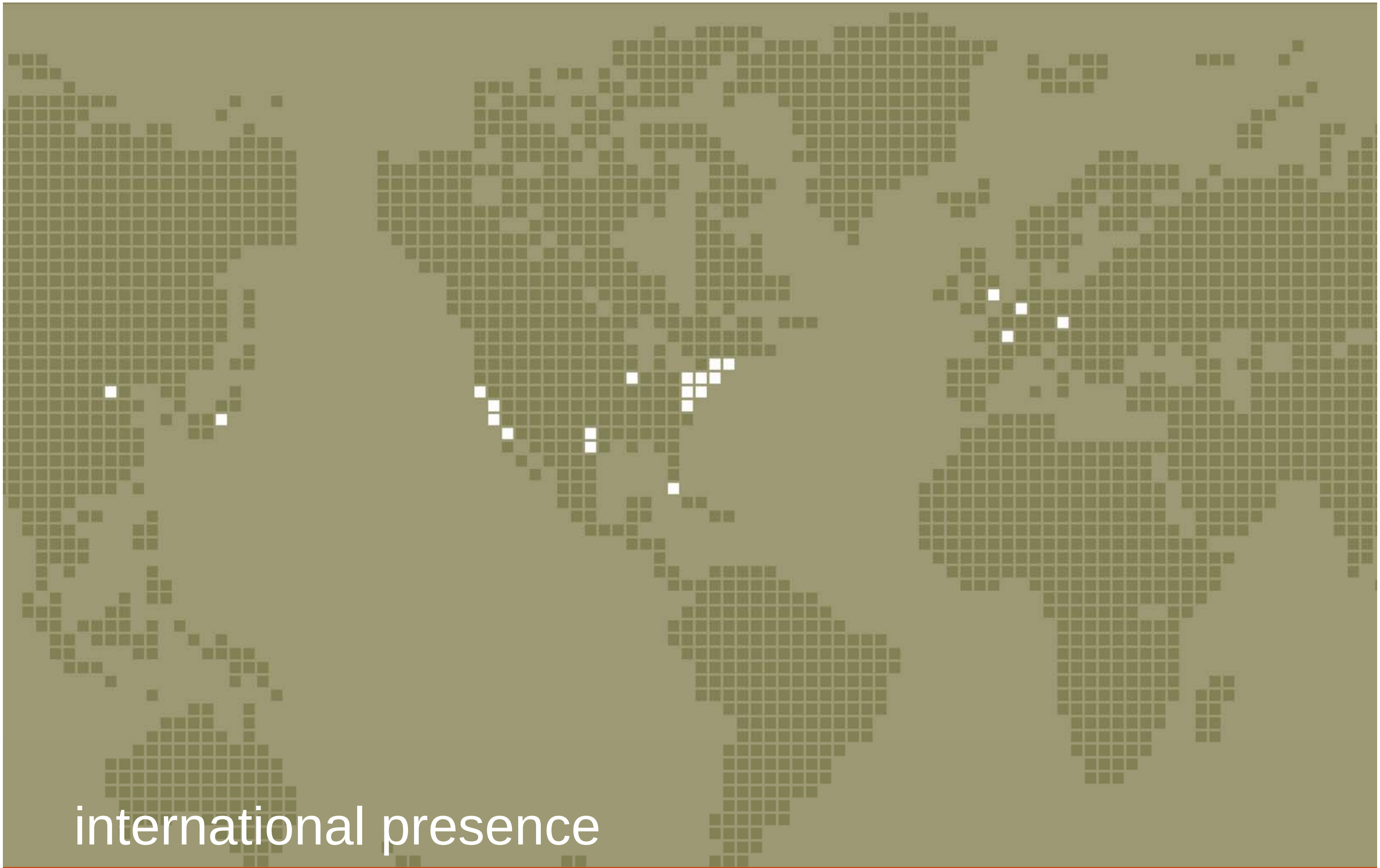
ADVANTAGES OF AN EQUITY INVESTMENT PRIOR TO TRADE SALE

- Provides Founders with continued control and potential upside value; however, investment terms may significantly reduce the valuation of the Company and limit the Founders ability to manage the business to a successful exit.



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