2005 VENTURE CAPITAL SURVEY ► Quarter One

MINTZ LEVIN
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EAST COAST VENTURE CAPITAL SURVEY

Set forth below are our findings based on a review of the publicly reported venture capital financings that took place in three regions during the first quarter of 2005. We looked at financings in the Mid-Atlantic, New York Metro and New England regions. For definitions of capitalized terms, please see the attached glossary.

Financing Round

The financings we reviewed ran the gamut from Series A to Series F with a distribution as follows:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	21%	28%	23%	26%	32%
B	43%	32%	34%	33%	32%
C	21%	16%	19%	18%	21%
D or later	15%	23%	24%	23%	14%

Price Direction

Nearly three of of four financings were Up Rounds:

Price Change	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Down	18%	28%	26%	29%	36%
Unchanged	11%	21%	14%	23%	11%
Up	72%	49%	59%	48%	53%

There was no significant pattern in the percentage of Down Rounds between the various stages:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
B	13%	29%	23%	27%	31%
C	27%	33%	29%	33%	41%
D or later	18%	24%	21%	28%	36%

Cumulative Dividends

This quarter saw a significant uptick in the use of Cumulative Dividends:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	61%	54%	43%	44%	46%

There was no significant pattern between the various stages:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	64%	62%	42%	58%	55%
B	56%	52%	29%	49%	43%
C	73%	42%	35%	30%	47%
D or later	54%	59%	67%	36%	36%

Liquidation Preferences Preference Multiples

Each financing had a Liquidation Preference for the most recent round that was at least *pari passu* with previous rounds, and in almost every case the latest round was senior to previous rounds. The preference multiples had the following distribution:

Liquidation Prefs	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
1X	86%	88%	85%	83%	79%
>1X—2X	11%	8%	13%	13%	20%
>2X—3X	3%	4%	2%	3%	2%

Participation

While the Liquidation Preference multiples were fairly low, three-quarters of all deals included Participation for the most senior series of Preferred Stock:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	79%	78%	76%	76%	73%

Redemption

Mandatory or Voluntary Redemption was generally present, although there was significant regional variation:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	81%	78%	80%	75%	77%

Antidilution

The graded decline of the Full Ratchet continued:

Antidilution Type	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Full Ratchet	14%	16%	16%	20%	22%
Weighted Average	86%	82%	81%	78%	75%

Pay to Play

About one in four deals included a Pay to Play provision. Such deals were divided between those that forced conversion to Common Stock and those that forced conversion to a Shadow Preferred Stock:

Conversion to	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Common Stock	18%	9%	21%	13%	14%
Shadow Preferred	7%	16%	5%	6%	7%

Corporate Reorganization/Recapitalization

A few of the transactions we reviewed included a Reorganization or Recapitalization pursuant to which the outstanding capital of the company was significantly changed at the time of the financing:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	10%	12%	9%	10%	13%

The two types of reorganizations that we found were 1) reverse splits (a.k.a. combinations), which were present as follows (some transactions included both types):

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	6%	8%	8%	7%	11%

and 2) forced conversion of senior securities into junior securities:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	7%	7%	2%	3%	6%

EAST COAST VENTURE CAPITAL SURVEY, *continued*

Conclusion

The market for venture capital on the East Coast is showing some interesting traits. The number of deals being done is the lowest it has been in several years; however, the dollars flowing into those deals has remained relatively stable leading to a noticeable increase in deal size at all stages of investment.

Judging by the number of Up Rounds, pricing was more favorable to the companies than it has been in the 6 quarters that we have done this survey. As in quarters past, the Company-friendly pricing has resulted in investors asking for something in return, the most noticeable correlation in this quarter was the increase in deals done with Cumulative Dividends. Liquidation preferences stayed low and most deals continue to have Redemption and a 1X Liquidation Preference with participation, often with no cap on participation.

Last quarter we mentioned that the large number of B Rounds could become a cause for concern if exits become unavailable; this quarter, the bulge became even more significant — over 4 out of 10 deals were Series B. With fewer and smaller IPOs this quarter, the most likely exit remains M&A, and fortunately for companies and investors alike, the M&A market was strong, with the highest prices since 2000 and a lot of deals getting done. Most of the M&A deals happening now are the good companies that were financed towards the end of the boom that were not able to exit before the bust. With deal size up and the IPO window barely open, we will need to see continued strength in M&A to justify the current pricing environment and loose deal terms.

FOR FURTHER INFORMATION PLEASE CONTACT:

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METHODOLOGY

We reviewed Preferred Stock investments made by venture capitalists within the regions broken down on the following pages during the period January 1, 2005 – March 31, 2005. For preparation of our survey, we examined publicly available sources and gathered additional information and insights on a confidential basis from market participants. We counted an Antidilution Protection as Full Ratchet even if the ratchet expired after a condition, such as the passage of time, was met. In addition, we did not break down whether Weighted Average Antidilution was Broad or Narrow. Percentages in the charts may not add up to 100% due to rounding.

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MID-ATLANTIC VENTURE CAPITAL SURVEY

Set forth below are our findings based on a review of the publicly reported venture capital financings that took place in the Mid-Atlantic region during the first quarter of 2005.

Financing Round

The financings we reviewed ran the gamut from Series A to Series D with a distribution as follows:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	13%	36%	35%	52%	35%
B	60%	43%	40%	20%	38%
C	7%	7%	5%	12%	15%
D or later	13%	14%	25%	16%	12%

Price Direction

What a difference a quarter makes:

Price Change	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Down	23%	78%	50%	50%	17%
Unchanged	8%	11%	8%	0%	11%
Up	69%	11%	42%	50%	72%

There were too few Down Rounds to draw any conclusions from the distribution:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
B	11%	17%	38%	40%	10%
C	0%	100%	100%	67%	25%
D or later	50%	100%	67%	50%	35%

Cumulative Dividends

A significant majority of transactions continued to include Cumulative Dividends:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	67%	79%	60%	76%	73%

There was no discernable pattern within the various rounds:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	50%	80%	50%	77%	78%
B	80%	67%	63%	80%	20%
C	100%	100%	0%	100%	75%
D or later	0%	100%	67%	50%	67%

Liquidation Preferences Preference Multiples

Each financing had a Liquidation Preference for the most recent round that was at least *pari passu* with previous rounds, and in almost every case the latest round was senior to previous rounds. The preference multiples had the following distribution:

Liquidation Prefs	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
1X	87%	86%	85%	64%	85%
>1X—2X	7%	0%	10%	16%	15%
>2X—3X	7%	14%	5%	20%	0%

Participation

While the Liquidation Preference multiples continue to be fairly low, almost every deal included Participation for the most senior series of Preferred Stock:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	93%	93%	95%	96%	96%

Redemption

Mandatory or Voluntary Redemption provisions are a staple term of financings in the region:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	87%	71%	80%	84%	81%

Antidilution

Weighted Average was used in most deals again this quarter; in some quarters a few deals had no price protection:

Antidilution Type	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Full Ratchet	13%	21%	25%	32%	31%
Weighted Average	87%	71%	75%	68%	65%

Pay to Play

Pay to Play provisions were present in one out of five deals in the most recent quarter. Forced conversion to Common Stock occurred roughly four times as often as forced conversion to a Shadow Preferred Stock:

Conversion to	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Common Stock	27%	14%	10%	16%	19%
Shadow Preferred	7%	7%	10%	0%	4%

Corporate Reorganization/Recapitalization

More transactions we reviewed this quarter included a Reorganization or Recapitalization pursuant to which the outstanding capital of the company was significantly changed at the time of the financing:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	20%	7%	0%	16%	15%

The two types of reorganizations that we look for are 1) reverse splits (a.k.a. combinations), which were present as follows (transactions in some quarters included both types):

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	13%	7%	0%	12%	8%

and 2) forced conversion of senior securities into junior securities:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	7%	0%	0%	4%	12%

METHODOLOGY

We defined the Mid-Atlantic region as North Carolina, Virginia, Washington, D.C., Maryland, Delaware and the area of New Jersey and Pennsylvania south of Princeton.

NEW YORK METRO VENTURE CAPITAL SURVEY

Set forth below are our findings based on a review of the publicly reported venture capital financings that took place in the NY Metro region during the first quarter of 2005.

Financing Round

The financings we reviewed ran the gamut from Series A to Series F with a distribution as follows:

Series	Q1' 05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	31%	13%	7%	33%	48%
B	38%	38%	14%	38%	19%
C	19%	25%	43%	8%	19%
D or later	13%	6%	36%	21%	12%

Price Direction

A majority of the financings were Up Rounds:

Price Change	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Down	27%	14%	15%	25%	38%
Unchanged	9%	29%	31%	38%	0%
Up	64%	57%	54%	38%	62%

Down Rounds occured only in early to mid-stage deals:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
B	33%	16%	0%	33%	20%
C	33%	0%	17%	50%	40%
D or later	0%	25%	20%	0%	67%

Cumulative Dividends

There was a significant increase in the number of deals with Cumulative Dividends:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	69%	44%	57%	54%	48%

NEW YORK VENTURE CAPITAL SURVEY, *continued*

Earlier Rounds were more likely to include a Cumulative Dividend:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	80%	50%	50%	63%	50%
B	67%	33%	50%	44%	20%
C	67%	50%	50%	50%	60%
D or later	50%	50%	80%	80%	67%

Liquidation Preferences Preference Multiples

Each financing had a Liquidation Preference for the most recent round that was at least *pari passu* with previous rounds, and in almost every case the latest round was senior to previous rounds. Most deals were done at a 1x preference. The preference multiples had the following distribution:

Liquidation Prefs	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
1x	88%	94%	86%	92%	72%
>1x—2x	12%	6%	14%	0%	28%
>2x—3x	0%	0%	0%	8%	0%

Participation

Liquidation Preference multiples continue to be low, and most deals included Participation for the most senior series of Preferred Stock:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	75%	88%	64%	58%	80%

Redemption

Mandatory or Voluntary Redemption provisions are a staple term of financings in the region.

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	63%	63%	64%	63%	68%

Antidilution

While nearly 2 out of 3 deals had Weighted Average, the number of Full Ratchet deals has increased significantly:

Antidilution Type	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Full Ratchet	37%	12%	0%	13%	20%
Weighted Average	63%	88%	100%	83%	72%

Pay to Play

In the most recent quarter no deals had Pay to Play:

Conversion to	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Common Stock	0%	6%	7%	17%	10%
Shadow Preferred	0%	18%	7%	4%	0%

Corporate Reorganization/Recapitalization

Few of the transactions we reviewed included a Reorganization or Recapitalization where the outstanding capital of the company was significantly changed at the time of the financing:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	6%	19%	14%	4%	10%

The two types of reorganizations that we look for are 1) reverse splits (a.k.a. combinations), which were present as follows (in some quarters transactions contained both types):

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	6%	13%	14%	4%	10%

and 2) forced conversion of senior securities into junior securities:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	6%	13%	0%	0%	5%

METHODOLOGY

We defined the NY Metro Region as the state of New York and the area of New Jersey and Pennsylvania north of Princeton.

NEW ENGLAND VENTURE CAPITAL SURVEY

Set forth below are our findings based on a review of the publicly reported venture capital financings that took place in the New England region during the first quarter of 2005.

Financing Round

The financing rounds broke down as follows:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	18%	32%	32%	22%	26%
B	38%	27%	21%	33%	24%
C	28%	16%	21%	28%	24%
D or later	18%	23%	26%	15%	26%

Price Direction

There were more Up Rounds than Down Rounds:

Price Change	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Down	12%	20%	15%	28%	35%
Unchanged	12%	20%	15%	17%	11%
Up	76%	60%	69%	56%	54%

All Down Rounds were in later stages:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
B	0%	17%	25%	20%	33%
C	27%	23%	0%	21%	50%
D or later	14%	9%	20%	43%	23%

Cumulative Dividends

A slight majority of transactions included Cumulative Dividends:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	58%	52%	37%	41%	54%

Later stage transactions were more likely to include Cumulative Dividends:

Series	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
A	57%	43%	33%	50%	26%
B	40%	42%	0%	67%	75%
C	73%	71%	25%	14%	50%
D or later	71%	55%	80%	29%	23%

Liquidation Preferences Preference Multiples

Each financing had a Liquidation Preference for the most recent round that was at least pari passu with previous rounds, and in almost every case the latest round was senior to previous rounds. The preference multiples had the following distribution:

Liquidation Prefs	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
1X	85%	86%	84%	98%	76%
>1X—2X	13%	11%	11%	2%	22%
>2X—3X	3%	2%	5%	0%	2%

Participation

While the Liquidation Preference multiples continued to be low, most deals again included participation for the most senior series of Preferred Stock:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	78%	70%	63%	70%	60%

Redemption

Mandatory or Voluntary Redemption provisions were widely used this quarter:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	88%	86%	95%	63%	90%

Antidilution

Full Ratchet Antidilution Protection was not used in a significant number of deals:

Antidilution Type	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Full Ratchet	5%	16%	5%	15%	24%
Weighted Average	95%	84%	89%	85%	76%

Pay to Play

Pay to Play provisions were present in one in three deals this quarter and such deals were divided between those that forced conversion to Common Stock and those that forced conversion to a Shadow Preferred Stock.

Conversion to	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
Common Stock	23%	9%	16%	20%	12%
Shadow Preferred	10%	18%	5%	13%	14%

Corporate Reorganization/Recapitalization

A few of the transactions we reviewed included a Reorganization or Recapitalization pursuant to which the outstanding capital of the company was significantly changed at the time of the financing:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	5%	11%	10%	9%	12%

The two types of reorganizations that we look for are 1) reverse splits (a.k.a. combinations), which were present as follows (transactions in some quarters included both types):

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	5%	5%	5%	9%	10%

and 2) forced conversion of senior securities into junior securities:

	Q1 '05	Q4 '04	Q3 '04	Q2 '04	Q1 '04
	3%	7%	5%	0%	4%

METHODOLOGY

We defined the New England region as the states of Massachusetts, Maine, New Hampshire, Vermont, Rhode Island, and Connecticut.

VENTURE CAPITAL GLOSSARY

The following is a general review based upon standard practice among venture capitalists and does not constitute an opinion or legal advice. Many of the terms are loosely defined in practice and there are exceptions to every rule, but we have created definitions based upon the most common usage. For further information please contact David Dutil at ddutil@mintz.com or 202-434-7425. David is an attorney with the Washington, D.C. office of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

ANTIDILUTION PROTECTION

Broadly, purchasers of shares in venture financings look for protection against subsequent offerings at lower prices, as well as structural protection against changes in a corporate structure (such as a stock split or recapitalization) affecting in itself the *pro rata* portion of the company originally purchased. Antidilution Price Protection gives investors in early rounds the benefit of a reduced effective price per share if the company later has a Down Round. Antidilution Price Protection is accomplished by changing the Conversion Ratio and comes in two basic flavors, Weighted Average and Full Ratchet, as follows:

Full Ratchet Antidilution Price Protection

"Full Ratchet" (sometimes called "Ratchet") Antidilution provisions reduce the effective per share purchase price of the investor's shares purchased in a round to the actual, lower price set in a later offering or event (for example, a subsequent financing round or issuance of shares as consideration for a transaction) thereby raising the number of shares of Common Stock into which the investor's Preferred Stock will convert. Full Ratchet is more favorable for the investors who receive it and can result in significant dilution for founders and other holders of Common Stock in the event of a Down Round.

Weighted Average Antidilution Price Protection

Weighted Average Antidilution provisions reduce the effective purchase price per share of the investor's shares purchased in a round by a weighted percentage reduction determined by reference to the price decrease and the comparative number of cheaper shares issued to the total number of shares outstanding.

There are subcategories of Weighted Average Antidilution Price Protection, Narrow Based and Broad Based and each of these two terms has fairly loose definitions. Generally the main difference is in the definition of outstanding shares, with a more broad definition having the result of lessening the price effect of a Down Round on the effective price of an earlier offering. For example, a Narrow Based Weighted Average Antidilution Price Protection Provision might include only Common Stock and convertible Preferred Stock then outstanding, while a Broad Based Weighted Average Antidilution Price Protection Provision would include Common Stock outstanding or issuable upon conversion or exercise of all Preferred Stock, warrants, convertible debt, options and any other contingent right to Common Stock.

To summarize:

Broad Based Weighted Average – most favorable to company/founders.

Narrow Based Weighted Average – in the middle.

Full Ratchet – most favorable to investors.

Antidilution Protection of a non-price based nature would be protection against changes to the Conversion Rate in the event of a stock split, stock dividend or similar reorganization. Normally, when investors and venture market participants talk about "Antidilution Protection" they are referencing Antidilution Price Protection.

VENTURE CAPITAL GLOSSARY, *continued*

COMMON STOCK
The standard unit of equity in a company. Common Stock is generally held by founders and some angels. Employee options typically convert into Common Stock. Common Stock is usually the type of security issued in a public offering.

CONVERSION RATE
The ratio at which each share of Preferred Stock converts into Common Stock. Venture Capitalists typically purchase Preferred Stock that converts into Common Stock at a stated ratio, usually one to one, which then may adjust based upon triggering events such as a Down Round in accordance with Antidilution Protection.

CUMULATIVE DIVIDENDS
Dividends that accrue at a fixed rate until paid are "Cumulative Dividends" which are payments to shareholders made with respect to an investor's Preferred Stock. Generally, holders of Preferred Shares are contractually entitled to receive dividends prior to holders of Common Stock. Dividends can accumulate at a fixed rate (for example 8%) or simply be payable as and when determined by a company's Board of Directors in such amount as determined by the board. Because venture backed companies typically need to conserve cash, the use of Cumulative Dividends is customary with the result that the Liquidation Preference increases by an amount equal to the Cumulative Dividends. Cumulative Dividends are often waived if the Preferred Stock converts to Common Stock prior to an ipo but may be included in the aggregate value of Preferred Stock applied to the Conversion Ratio for other purposes. Dividends that are not cumulative are generally called "when, as and if declared dividends."

DOWN ROUND
Issuance of shares at a later date and a lower price than previous investment rounds.

ISSUE PRICE
The price per share deemed to have been paid for a series of Preferred Stock. This number is important because Cumulative Dividends, the Liquidation Preference and Conversion Ratios are all based on Issue Price. In some cases, it is not the actual price paid. The most common example is where a company does a bridge financing (a common way for investors to provide capital without having to value the company as a whole) and sells debt that is convertible into the next series of Preferred Stock sold by the company at a discount to the Issue Price.

LIQUIDATION PREFERENCE
The amount per share that a holder of a given series of Preferred Stock will receive prior to distribution of amounts to holders of other series of Preferred Stock or Common Stock. This is usually designated as a multiple of the Issue Price, for example 2x or 3x, and there may be multiple layers of Liquidation Preferences as different groups of investors buy shares in different series. For example, holders of Series B Preferred Stock may be entitled to receive 3x their Issue Price, and then if any money is left, holders of Series A Preferred Stock may be entitled to receive 2x their Issue Price and then holders of Common Stock receive whatever is left. The trigger for the payment of the Liquidation Preference is a sale or liquidation of the company, such as a merger or other transaction where the company stockholders end up with less than half of the ownership of the new entity or a liquidation of the company.

PARTICIPATION

Describes the right of a holder of Preferred Stock to enjoy both the rights associated with the Preferred Stock and also participate in any benefit available to Common Stock, without converting to Common Stock. This may occur with Liquidation Preferences, for example, a series of Preferred Stock may have the right to receive its Liquidation Preference and then also share in whatever money is left to be distributed to the holders of Common Stock. Dividends may also be "Participating" where after a holder of Preferred Stock receives its Cumulative Dividend it also receives any dividend paid on the Common Stock.

PREFERRED STOCK

The unit of equity in a corporation that is typically sold to venture and other institutional investors. Preferred Stock will usually have preferential rights over the Common Stock with respect to dividends, liquidation, voting, redemption and/or Antidilution Protection. There is nothing automatically "preferred" about Preferred Stock, but rather it has whatever rights are associated with the particular class or series as described in the company's certificate of incorporation. Preferred Stock can be subdivided into one or more different classes or series. Typically, the first series sold to investors will be designated Series A, the next will be Series B and so on. Series A is not necessarily better than Series B, rather the relative rights are governed by the company's certificate of incorporation and one series may have a better dividend preference while another may have a better liquidation preference. However, it is important to note that within a series all shares must have identical rights and be treated equally by the company.

PAY TO PLAY

A "Pay to Play" provision is a requirement for an existing investor to participate in a subsequent investment round, especially a Down Round. Where Pay to Play provisions exist, an investor's failure to purchase its pro rata portion of a subsequent investment round will result in conversion of that investor's Preferred Stock into Common Stock or another less valuable series of Preferred Stock "Shadow Preferred."

REDEMPTION

The right or obligation of a company to repurchase its own shares, as follows:

Mandatory Redemption

The right of an investor to require the company to repurchase some or all of an investor's shares at a stated price at a given time in the future. The purchase price is usually the Issue Price, increased by Cumulative Dividends, if any. Mandatory Redemption may be automatic or may require a vote of the series of Preferred Stock having the redemption right.

Voluntary Redemption

The right of a company to repurchase some or all of an investor's outstanding shares at a stated price at a given time in the future. The purchase price is usually the Issue Price, increased by Cumulative Dividends.

REORGANIZATION OR CORPORATE REORGANIZATION

Reorganizations are significant changes in the equity base of a company such as converting all outstanding shares to Common Stock, or combining outstanding shares into a smaller number of shares (a reverse split). A Reorganization is frequently done when a company has already had a few rounds of venture financing but has not been able to successfully increase the value of the company and therefore is doing a Down Round that is essentially a restart of the company.

ROUND

Investors typically buy a series of Preferred Stock within a short time frame and frequently all at once. Each of these investment periods is a Round and will generally be associated with a specific security. For example, a "Series A Round" is when a company sells its Series A Preferred Stock. A Round may be open for a stated period of time to enable the company to accommodate investors who require additional time and investors who may want to put their money to work sooner.

SHADOW PREFERRED

See Pay to Play.