Exhibit 8 Potential Results with early redemption

	1998	1999	2000	Thru Sept. 2001
Initial Total Investment	$190,000			
Interest Accrued (Cumulative)	$19,950	$34,200	$34,200	$22,800
Interest Received	0	30,000	20,000	$61,150
Payment on Preferred				$190,000

Source: BCVF information.

Appendix 1: The Ownership Securities: Preferred and Common Stock[17]

Preferred stock is one of the ways that investors can protect their interests. Money is invested in an enterprise based on its potential value, and both the investment and the value creation occur in discontinuous lumps. The venture investment serves as a bridge between the value creation events (the signing of the first customer, the signing of a big contract) and securities other than common stock protect the venture capitalist's position until the entrepreneur has delivered on the promised value.

A crucial distinction exists between debt and equity. Debt is a sum of money loaned usually by a bank with a contractually specified repayment schedule. The creditor received its money and interest regardless of whether the business does well or poorly. If the business fails, the creditor has a secured interest and stands at the head of the line of parties with claim on the firm's assets. Thus, although the creditor will never receive a return in excess of the stated interest rate, it will very rarely loose all of its money, especially since risky loans usually require collateral—a building, a piece of equipment, the entrepreneur's house—to secure them.

Equity, on the other hand, has an almost unlimited upside, but also significant downside risk. Through an equity investment, investors literally purchase a portion (shares) of a company. In contrast to debt, where the creditor wants a concrete asset with which to secure a loan, equity investors are buying a piece of the entrepreneur's idea. As part-owners of the company, the investors will do as well as the company does, assuming that they can convert their illiquid shares into cash. Investing in public companies offers instant liquidity, as the shares are freely traded on public markets. Investing in private companies is far trickier, and theoretically compensates investors with a higher rate of return. Conversely, if the company fails, the investor has no claim on its assets for repayment. Shareholders will lose their entire investment and may even be responsible for additional fees to dispose of the failed company's trash.

Providers of equity and debt also deal with companies differently. When a company is in trouble, debt-providers may foreclose on a loan. Frequently, equity owners respond by investing more money. The process of providing debt is usually fairly formulaic, based on a few key ratios. Taking an equity position involves extensive due diligence and assessing the commitment and talents of the management team, in addition to the viability of the business model and the potential market. Also, debt instruments are self-liquidating, while equity investments require a focus on means of reaching liquidity, or, as a traditional venture capitalist said, "You back into the room looking at the exit sign."

In an equity investment, common stock is the basic form of ownership. Holders of common stock have no special rights and, in the event of the company's liquidation, stand behind all other stakeholders in order of repayment. Suppose a venture capitalist paid $1.5 million for 49.9% ownership in a company. The entrepreneur retained 50.1%. If the company was immediately sold for $2 million, the purchase price would be between the investor and the entrepreneur based on ownership percentages. The venture capitalist would receive $998,000, an immediate loss of $502,000.

If our venture capitalist had purchased preferred rather than common stock, she could have avoided this unfortunately outcome. Preferred stock has special rights, including a liquidation preference, or the contractual guarantee that holders of preferred will be repaid before the holders of common. If the investor in the example above had held preferred stock, the $1.5 million investment would have been repaid first, then the $500,000 remaining would have been divided based, in most cases, on the percentage ownership of the common stock. This is termed "redeemable (or straight) preferred" and does not convert into common stock. Its value is its face value (the money invested in the company) and any dividend rights it carries. Redeemable preferred always carries a negotiated term stating when the company must redeem the stock—usually the earlier of an IPO or five to eight years. In the event of an IPO, the preferred position is repaid without affecting the investor's

[17] This section draws on Felda Hardymon and Josh Lerner, "A Note on Private Equity Securities," in Hardymon & Lerner, *Venture Capital & Private Equity: A Casebook*, (2nd edition, John Wiley & Sons, New York, NY, 2001), p. 265.

ownership of common stock. If our investor had stipulated that her $1.5 million would take the form of redeemable preferred stock and a 49.9% of the common, the $2 million sale would have returned her $1.5 million first, and remaining $500,000 would have been split according to the ownership percentages ($249,500 to the venture capitalist). In the case of an IPO, the investor would receive her $1.5 million (the liquidation preference) and then maintain her percentage ownership of common stock in the public company.