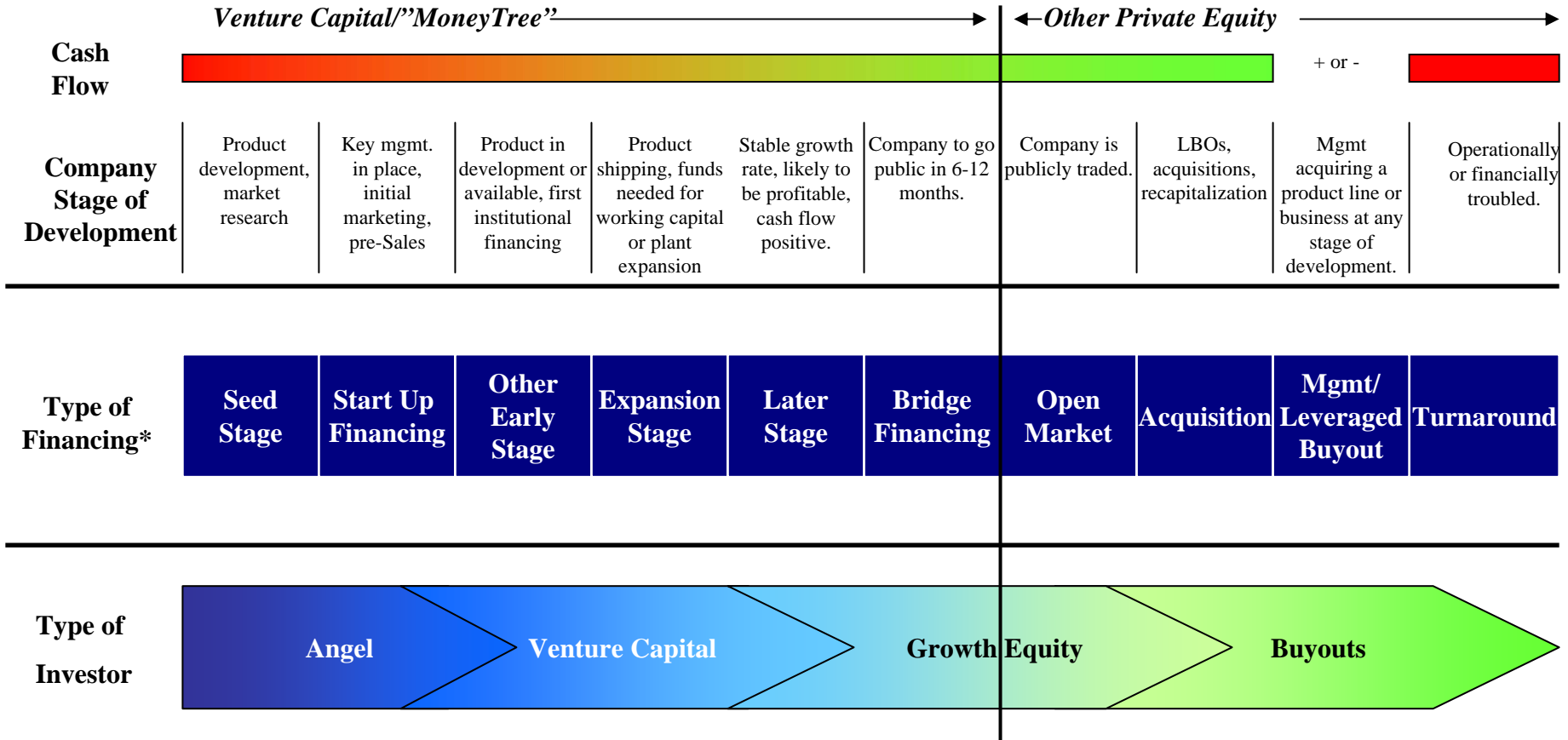


Taxonomy of Private Equity



* Full definitions for each type appear on the following pages.

Source: Thomson Venture Economics.

Investment Type Definitions

EARLY STAGE FINANCING

Seed Stage Financing

This stage is a relatively small amount of capital provided to an inventor or entrepreneur to prove a concept and to qualify for start-up capital. This may involve product development and market research as well as building a management team and developing a business plan, if the initial steps are successful. This is a pre-marketing stage.

Start-up Financing

This stage provides financing to companies completing development and may include initial marketing efforts. Companies may be in the process of organizing or they may already be in business for one year or less, but have not sold their products commercially. Usually such firms will have made market studies, assembled the key management, developed a business plan, and are ready to conduct business.

Other Early Stage Financing

Other early stage financing includes an increase in valuation, total size and the per share price for companies whose products are either in development or are commercially available. This involves the first round of financing following a company's start-up phase that involves an institutional venture capital fund. Seed and start-up financing tend to involve angel investors more than institutional investors. The networking capabilities of the venture capitalist are used more here than in more advanced stages.

Investment Type Definitions

EXPANSION FINANCING

Expansion Stage Financing

This stage involves working capital for the initial expansion of a company that is producing and shipping and has growing accounts receivable and inventories. It may or may not be showing a profit. Some of the uses of capital may include further plant expansion, marketing, working capital, or development of an improved product. More institutional investors are likely to be included along with investors from previous rounds. The venture capitalist's role in this stage evolves from a supportive role to a more strategic role.

Later Stage

Capital in this stage is provided for companies that have reached a fairly stable growth rate; that is, not growing as fast as the rates attained in the expansion stages. Again, these companies may or may not be profitable, but are more likely to be than in the previous stages of development. Other financial characteristics of these companies include positive cash flow.

Bridge Financing

This stage is needed at times when a company plans to go public within six months to a year. Often bridge financing is structured so that it can be repaid from the proceeds of a public underwriting. It can also involve restructuring of major stockholder positions through secondary transactions. Restructuring is undertaken if there are early investors who want to reduce or liquidate their positions, or if management has changed and the stockholdings of the former management, their relatives and associates are being bought out to relieve a potential oversupply when public.

Open Market

This stage involves acquiring securities of companies whose common shares trade publicly..

Investment Type Definitions

ACQUISITION/BUYOUT

Acquisition Financing

This stage provides funds to finance the acquiring of another company. Included in this category would be mezzanine financing using subordinated debt and bridge loans used to finance LBOs, acquisitions and recapitalizations.

Management/Leveraged Buyout

These funds enable an operating management group to acquire a product line or business, at any stage of development, either from a public or private company. Often these companies are closely held or family owned. Management/leveraged buyouts usually involve revitalizing an operation, with entrepreneurial management acquiring a significant equity interest.

Turnaround

This stage involves financing provided to a company at a time of operational or financial difficulty with the intention of “turning around” or improving the company’s performance. This includes financings involving restructuring equity.