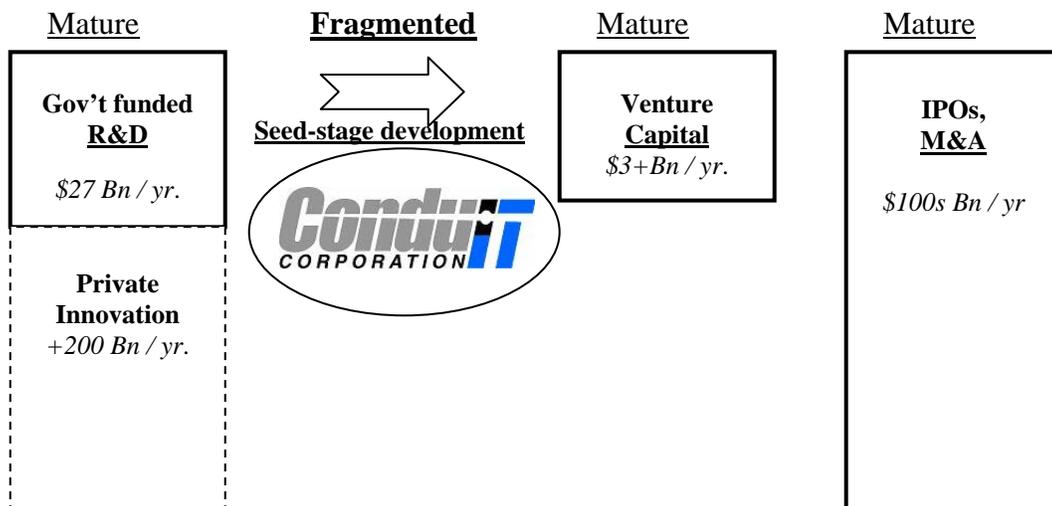


I. Conduit addresses a vital Gap in U.S. Enterprise Formation

Research funding in U.S. universities, federal labs, etc. exceeds \$27B per year -- a mature activity supported by peer-reviewed grant requests, well-oiled administrative processes, and incrementally growing research budgets. Even more innovation is produced by individuals and corporations, where research budgets exceed \$200Bn per year.

Venture Capital (VC) activities also are mature, and more sophisticated in the U.S than anywhere else in the world. So are financial services for IPOs, Mergers and Acquisitions, and related transactions for larger, more established companies. (VC investment trends also have trended toward more mature ventures: VCs invested 16% of their *funds* in start-up/seed stage ventures in 1995, but only 2% in 2003. The startup share of VC *transactions* declined over the same period from 23% to 6%. Moreover, the average transaction size for VC-backed startups was constant over the period at \$2.5 - \$3Mn, explaining much about why VCs back few of the raw startups with pre-money valuations typically below \$1M.)

What is *not* sophisticated (or mature) in U.S. enterprise formation is the gap between technological innovation and VC. This early, pre-revenue stage of development currently is typified by angel investment, entrepreneurs struggling against long odds, and few partners or resources. To this heavily fragmented space Conduit brings strong management, mutually reinforcing (i.e. synergistic) businesses, dozens of business-building tools and templates, more efficient funding, networks of relationships and resources, and habits and practices that consolidate and speed business accomplishment.



Opportunities & Strategies



II. Conduit enjoys **Network Effects** by concentrating on Information Technologies (IT).

Customers, distributors, channel partners, technology partners, and suppliers developed for any one business are more likely to benefit other Conduit portfolio businesses in a similar business sector. This synergy extends and deepens the relationships and networks at Conduit's disposal for additional new and related business initiatives within our sectors of focus. Within IT itself, Conduit has to date emphasized healthcare and entertainment distribution. It is no accident that these are two of Nashville's key industries, enabling us to work most closely with prospective customers.

Conduit aggregates routine corporate functions – such as management of facilities, phones and networks and utilities, taxes, accounting, legal filings, etc. – to keep the entrepreneur's mind on his or her special requirements for success, typically marketing. Conduit also adds significant expertise and deep experience (see V. below) to support and help guide an entrepreneur's critical marketing task.

III. Conduit uses a **Bootstrapping** mentality to postpone significant funding until a business can support a higher valuation. Though many innovators arrive at Conduit with dreams of immediate six-figure (or seven-figure) funding, we help them understand why – and how – a bootstrapped approach preserves value for the innovators by reducing risk for the eventual investor. Conduit thus invests very small (typically five-figure) amounts, at a low initial valuation, with increased investment and valuations as milestones are met. At an appropriate time, Conduit then helps raise larger external capitalization as needed, at a higher valuation based on proven achievements and tested plans. Bootstrapping guarantees high stress for Conduit's management. But it also optimizes the impact of our small initial investments, and enables Conduit management to accumulate a larger portfolio that **mitigates Conduit's risk through diversification.**

IV. **Robust deal flow** is virtually guaranteed because technology innovators typically lack business skill or experience -- yet venture capitalists require minimum business achievements (revenues, product definition, management in place, etc) that are beyond the capabilities of most technology innovators. Even those innovators more experienced in business typically lack the network of relationships or the array of resources and support that's broad and deep enough to succeed.

V. **Management** is a key differentiator in Conduit's offering. Ray Capp (CEO) and Mike Hassell (EVP) together have over four decades of experience in marketing management roles – from Procter and Gamble to Texas Instruments and beyond, most frequently in information technologies or content. Further management details follow:

Opportunities & Strategies



Ray Capp
President and Chairman, Board of Directors
rcapp@ConduitCorporation.com
615/ 279-3404



Ray Capp has over 24 years of executive leadership experience in the distribution, publishing, and entertainment industries. Capp served as COO at Ingram Entertainment from its founding to over \$1 billion in sales, and as EVP at Thomas Nelson Publishers, one of the top 10 publishers in the English language. With considerable experience with Mergers and Acquisitions, product development, and marketing, Capp is highly regarded as an insightful strategist and no frills operator. Capp is himself a successful author and inventor.

Mike Hassell
EVP Investments & Business Development
mhassell@ConduitCorporation.com
615/ 279-3405



Mike Hassell has held executive management and marketing positions in new ventures for the past 20 years. Hassell has served as CEO for several Vanderbilt start-up companies, as well as holding the positions of VP Marketing for Medpearl and President of Slingerland Drum Company. After receiving a Georgia Tech electrical engineering degree and beginning his career in marketing at Procter & Gamble's brand management, Hassell received a Harvard MBA before launching his entrepreneurial career. Though Hassell's experience includes biotech, information technology (IT) and manufacturing businesses, he has chosen to specialize in IT ventures at Conduit Corporation.

VI. **Conduit's management services span a large spectrum**, from accounting and legal matters to office space (simplifying leases, utilities, networks, etc. in circumstances of rapid growth) and especially marketing and sales planning and management. (See the attached exhibit for a detailed listing). Conduit's goal is to identify gaps in the capabilities of its portfolio companies, and fill them as needed to identify and address customer needs in a structured, professional way.

Conduit Corporation, 3212 West End, Suite 500, Nashville TN 37203 www.conduitcorporation.com

Summary of Conduit Services

- | | | |
|---|---|---|
| I. Facilities | Office space/utilities/free parking
Phone (excl long distance chrgs, billed separately)
Internet connection (incl anti-virus, backup, email) | Furnishings, limited supplies
Conference rooms (A/V equipment available)
Copier, fax |
| II. Accounting | Bookkeeping/accounting, incl. reports on demand
Manage checkbook, A/P, A/R
Financial planning | Annual review & audit
File tax submissions
Cash flow management |
| III. Legal | Minute book (minutes, Op Agreement, Voting Rights, contracts, etc.)
Legal forms: NDA/NCA, LOI, invoices etc.
Legal filings (Sec'y of State, tax filings, etc.)
Term Sheets/contracts, Licenses, employment agreements, option plans
Identify defensible intellectual property(IP), and legal strategies to protect it | |
| IV. Senior Management | Identify mission/vision/goals
Business model creation/adjustment
Identify/manage key valuation drivers
Ensure ownership = contribution
Optimize use of funds
Align interests= optimize collaboration, teamwork
Structure margin allocation & management | Identify/manage critical path
Write business plan, exec summaries, etc.
Develop distribution strategy via contacts, experience
Risk management
Operational planning, implementation
Build synergies with similar companies |
| V. Marketing Management & Services | Identify / validate value proposition(s)
Identify key customers, reference accounts, market segments, rollout strategy
Pricing analysis
Market research
Competitor analysis | Plan/implement sales funnel
Branding (image, message etc. management) |
| VI. Operations Management | Help execute in time against critical path
Plan/manage staff, facilities, capacity, policies | |
| VII. Capitalization/Investment | Plan/manage/evolve capital structure
Limited capital investments
Help raise capital | Optimize use of funds (valuation for funds received)
Budget planning/management |
| VIII. Technology Management | Web site planning, implementation, admin
Tech strategy planning/implementation | Functional Specification |
| IX. Admin Services | Mailing, shipping, reception of guests
Meeting preparation, support | Catering
Materials preparation (print, copy, collate, etc.) |
| X. Other | Use templates (Fact Sheets, Backgrounders, etc.) for faster achievement of all of the above | |