BUY/SELL OPTIONS

Notes*

1. May not be appropriate if 1 Founder has significantly greater liquidity, or if there is an imbalance in voting rights;
2. Once the process has started, there is no going back unless <u>both</u> Founders agree.

Alternative Options

1. Mandatory Mediation
2. 3rd Party Tie-Break Vote
3. Put/Call Right — if the stockholders are unable to resolve their differences, the Majority Stockholder has the right to force the Minority Stockholder to sell its shares (a "Call Right") and the Minority Stockholder has a corresponding right to force the Majority Stockholder to buy its shares (a "Put Right").
    - <u>The Purchase Price</u> may be the appraised fair market value of the Common Stock held by the Minority Stockholder, or it may be the Purchase Price may be set using any of the below methodologies.
    - <u>If the Stockholders own equal shares in the Company</u>, they should each have a Call Right.

Other Considerations

1. Deadlock Triggers — ordinarily a Buy/Sell provision may be triggered only after (1) there has been disagreement for a certain number of days, (2) the disagreement persists despite the parties' good faith deliberations to resolve the issue, and (3) the disagreement must be over some <u>Fundamental Matter</u> (such as amending corporate bylaws, incurring indebtedness, making a material change to the nature of the Business, selling the Company, etc.)
2. Other Potential Triggers — (1) the Company fails to meet certain financial or operating targets, (2) there is change of control of the Company, (3) a Founder materially breaches the Founders Agreement, or (4) a Founder wants to exit the Company after the expiration of a specified lockup period.

<u>Option One: Russian Roulette</u>

Initiating Founder

Proposes a price for the entire venture, and offers to <u>both</u> buy out the Responding Founder's stake at that price, <u>or</u> sell their own stake at that price.

Responding Founder

The Responding Founder chooses to <u>either</u> (1) buy the Initiating Founder's stake at this price, <u>or</u> (2) sell their own stake at this price.

Stockholders are incentivized to submit fair bids. Should a Stockholder bid too low, they leave money on the table by undervaluing their shares and will be forced to sell at this price. Should a Stockholder bid too high they may be forced to buy the shares of the other parties at this inflated price.
*** This option may work more efficiently when there are only two Stockholders.**
*** This option provides greatest flexibility to the Responding Founder, who has ultimate say over whether to buy or sell their stake <u>after seeing</u> the proposed price.**

Option Two: Texas Shootout

Initiating Founder

Responding Founder

At 1 Founder's Initiative—
(1) Both Founders submit sealed bid to an independent third party, with the perceived value of their own equity interest.

(2) The Founder who submits the highest bid buys out the other member's shares at that higher valuation.

Stockholders are incentivized to submit fair bids. Should a Stockholder bid too high, they may be forced to buy the shares of the other parties at this inflated price.
*** This option rewards the member who submits the highest bid price, and therefore has put the greatest value on the Company.**

Option Three: Dutch Auction

Initiating Founder

Responding Founder

At 1 Founder's Initiative—
(1) Both Founders submit a sealed bid containing the lowest price at which they would sell their interest.

(2) The Founder who proposes the highest bid buys out the Founder who proposes the lower bid, at that lower price.

Stockholders may be incentivized to submit inflated prices. Should a Stockholder bid too low, they leave money on the table by undervaluing their shares and will be forced to sell at this price. However, should a Stockholder bid too high, they still receive the benefit of buying the shares of the other Stockholders at these Stockholders' lower bid price.
*** This option rewards the stockholder who submits the highest bid price, and therefore has put the greatest value on the Company.**