

As you know, Michael Huffington invested \$5 million during the 1998 Private Placement. This represents about 5/7th of the funds raised in the placement and roughly 40% of the money invested into the company. He got roughly 5% of the company in exchange for this investment.

Since his investment, he was asked by Marc to become active in the selection of a lead Investment Banker and to become the company's Vice Chairman. Mike has worked on a full-time basis in this regard and has brought his significant business experience and contacts to DEN. However, Mike has made it clear that, given his stake in the company in relation to the amount of cash he has invested, he is unwilling to be more than a passive investor unless terms for additional equity consideration can be agreed upon. Mike had asked for options for 6% and MCR had offered options for 3%. DN and I recommended 4% and I thought this was acceptable to everyone. However, in recent discussions with MCR regarding his compensation to continue serving as Chairman, he has asked for options on the same basis as MH. MH has made it clear that this would be a deal breaker for him. If the company desires to have MH as other than a passive investor, it will need to resolve this issue. Mike has set a deadline of 3/10 so that a decision can be ratified at the Board retreat.

I will summarize the state of negotiations and I welcome your comments. I'd like to be able to present terms which will be acceptable to the BOD at the upcoming Board meeting. Accordingly, please help me to bring this negotiation to a expeditious close by giving this your close consideration and returning your comments to me post haste. Your direct comment to MCR will also be appreciated.

The capped language below represents Mike's proposed terms. My comments follow.

1. HUFFINGTON WILL SERVE AS VICE CHARIMAN. No apparent dispute. However, query whether the company should have the option to change his title (possibly even to CEO/Vice Chairman) at some future date.

2. 4 YEAR EMPLOYMENT OR CONSULTING AGREEMENT.

In order to give the kind of consideration sought by Huffington, we will be unable to keep him as an outside director so a consulting or employment relationship is consistent with the type of deal under consideration. To obtain favorable accounting treatment, he must be categorized as an employee not a consultant.

The terms the company proposed for discussion were "at will" but provided for acceleration of options if his services are no longer requested by the company. There is, however, some advantage to having Mike committed for a term of years. If a term of years is accepted, I suggest that the Company have the ability to discontinue his services in exchange for vesting him in some or all of his options.

Mike does not raise the issue of exclusivity or full-time employment. Comments? See also comments below.

As with the employment agreements for Marc and Chad (to be discussed in a separate e-mail), I suggest that a simple and streamlined letter agreement be used rather than the form of executive agreement.

3. \$500,000 PER YEAR IN THE FORM OF DISCOUNTED STOCK OPTIONS ON THE SAME BASIS AS MCR'S EMPLOYMENT

\$500k is the sum the company contemplates paying MCR and the company contemplates that MCR will be compensated in options, at least for the first year. I suggest that for subsequent years, both MCR and MH be compensated in either cash or options at the Board's discretion and that for subsequent years the strike price be at fair market value upon commencement of each subsequent year. Accounting considerations drive my recommendation.

4. FIRST CLASS AIR TRAVEL. No objection.

5. PARTICIPATE IN INCENTIVE PLANS AND BENEFITS ON SAME BASIS AS SENIOR EXECUTIVES.

This is only appropriate if he is a full-time employee.

6. GRANT OF 333,000 SHARES OR 4% PRE-DECEMBER OFFERING ASSUMING CONVERSION OF FIRST NOTES AND EXERCISE OF RELATED WARRANTS WITH \$10 EXERCISE PRICE and 4 YR VESTING. ACCELERATION IF TERMINATED WITHOUT CAUSE OR FOR GOOD REASON BY MH.

This is basically what DN and I recommended as a compromise to the offers made by MH and MCR. However, as discussed further below, it will be a deal breaker for MH if MCR gets similar options.

We will need to work out a definition of "cause."

7. ANTI-DILUTION PROTECTION MFN WITH INITIAL EXECUTIVES.

The first three executive recruited from the outside have some anti-dilution protection when equity is given to subsequently hired employees. If this type of anti-dilution protection were given to MH (or MCR or CS), the dilution to non-insider shareholders gets into a range which our advisors tell me is troubling. Further, there is no longer any justification for this type of concession to be made, especially with respect to major equity holders who already have a strong interest in the success of the company. I suspect this point will be dropped eventually by MH. There is no problem giving normal anti-dilution -- stock splits, recapitalization, etc..

7. RIGHT BY MH (ON BEHALF OF SELF OR DAUGHTERS) TO PURCHASE PORTIONS OF MCR AND CS NOTES CONVERTIBLE INTO 1,500,000 SHARES AT \$1.25 PER SHARE (\$1,687,500)

This is really an issue for MH's representatives to raise with MCR/CS or their personal attorney. However, because it is driven by MH's desire to reduce the spread between his equity interest and that of our founders, it is relevant to the heart of the issue before us. As MCR originally wanted to be repaid his loans to the company, he may be open to considering this proposal. Mike may well cede on his other demands if MCR and CS were to agree to this request. Further, MCR may be able to couple a compromise on this issue with an additional equity investment by MH at a new, higher valuation.

8. MH OBJECTS TO GIVING ADDITIONAL COMPENSATION TO MCR/CS FOR SOFTWARE DEVELOPMENT OR GIVING MCR ADDITIONAL OPTIONS OF 4%.

MCR and CS do not have employment agreements with DEN. As will be detailed in a separate e-mail, they have asked that they be compensated and made claims to deferred compensation accrued for 1998. However, they did not document any deferred compensation arrangements and the history on this issue is unclear. Further, the company's original financial managers, Perry and Neidorf, did not document what compensation agreement the company may have had with Marc and Chad. One possible resolution I floated to deal with this was to characterize their claims for 1998 compensation as a fee for a perpetual license for the Manhattan Project intellectual property heretofore developed, since the scope of their employment in this regard could possibly be called in dispute, thus possibly bringing the state of the intellectual property rights into question. MH counters that the PPM discussed the development of the software without disclosing that the Company did not own the high level specifications without any obligation to the founders. Regardless of the positioning on this issue, I believe that differences can be overcome since the amount at issue is relatively small (\$500k for MCR and \$250k for CS).

The possible deal breaker here, and at the heart of this entire issue, is MCR's recent assertion that if MH should get options for serving as Vice Chairman then he should get options on the same basis for serving as Chairman. MH counters that this would defeat the entire purpose for giving him options in exchange for taking an active role in the company -- making the large equity gap between him and MCR somewhat smaller. MH's position is that there should be less disparity between the equity stakes of him and MCR if he is to commit to an active role with the company. While he acknowledges that founders deserve an equity premium, he does not want to invest roughly the same amount of cash AND his primary attention over the next few years only to have a tiny portion of the equity held by the founders. He sees the commitment of time, attention and energy by MCR and CS to be an obligation of being founders and part of what they need to do to see their founder's equity gain value. Accordingly, he believes that it is in the company's best interest to offer him 4% in options to become more than a passive investor but not in the company's best interest to offer additional equity (beyond the reasonable salary in the form of options) to the founders.

Please feel free to contact me if you have any questions.