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REAL WORLD ADVICE FOR VIRTUAL BUSINESS OWNERS LOOKING TO CASH OUT
- Expert considers realities of virtual economies -

(TORONTO – May 16, 2007) -- As the lines between real and virtual worlds such as Second Life (SL) dissolve into the cyber-haze, savvy entrepreneurs are making real money with their 'in-world' creations that include everything from t-shirts to real estate.

The digital simulation economy may be growing faster than the GDP of many real-world nations. In a few short years the number of registered users on SL has soared up to nearly five million with more than US \$1 million of actual currency changing hands every day, according to media reports.

Entrepreneurs are lured to the virtual world by the freedom that allows them to build elements with 3D design tools, as well as by the ability to retain the intellectual property rights for their creations, which can be bought and sold for virtual money that can then be converted into real cash.

The potential to convert virtual money back into real-world dollars has already caught the attention of the Internal Revenue Services (IRS) in the United States, which is studying the possibility of how to tax some SL transactions. It also sparked the interest of the Canadian Institute of Chartered Business Valuators (CICBV), whose members, Chartered Business Valuators (CBVs), prepare companies for succession based on expertise in determining and maximizing value.

The CICBV has asked Steven Rayson, a CBV specializing in the entertainment industry at Mintz & Partners LLP, to provide real world advice to in-world entrepreneurs looking to cash out of their businesses and maximize their SL value:

1. When pricing a business, it may be difficult to get in-world rules of thumb and market comparables on what similar businesses are being sold for, so negotiation becomes key. Rules of thumb can include a percentage or multiple of revenues;
2. Since standardized financial statements and accounting records for an in-world business are unlikely, have some support for the sale to justify the asking price;
3. In the real world, personal goodwill, which is based on a specific individual's contacts, abilities, good name and reputation, has no commercial value because it is not transferable. However, in the SL world, value may consist totally of personal goodwill based on a resident's contacts, connections and unique abilities (for example, the ability to fly, teleport, etc.), so again it comes down to negotiation; and

4. When valuing a real world business, CBVs consider risk factors associated with cash flows, such as general economic risks, industry risks, etc. SL has its own set of risks that need to be factored in. The risk of Linden Lab (SL developers) changing its policies is one example. In the past, residents lost businesses when Linden Lab changed its rules regarding the location of Telehubs. The more risk associated, the less someone will pay for a business.

To obtain the CBV designation, individuals must pass a rigorous set of courses and exams and meet lengthy professional experience requirements. The designation is managed by The Canadian Institute of Chartered Business Valuators, which also regulates its members with Practice Standards and a Code of Ethics.

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For more information contact:

Brown & Cohen Communications & Public Affairs Inc. 416-484-1132

Wendy Kauffman ext. 3 wendy@brown-cohen.com or

Natasha Bolotina ext. 5 natasha@brown-cohen.com