

---

Document v1.0

## UPSTART CAPITAL, L.P.

A Seed and Early-Stage Internet  
Venture Capital Partnership

spindler@upstartcap.com  
deepak@upstartcap.com  
aymerik@upstartcap.com

## Executive Summary

---

Upstart Capital Management, L.L.C. (“Upstart”) established Upstart Capital, L.P. (the “Partnership”) in late 1999 to make equity investments in seed and early-stage Internet-related software and communications companies (“Portfolio Investments”). The principals of Upstart, Deepak Moorjani, Aymerik Renard and Michael Spindler (the “Principals”), have extensive experience investing in, managing and financing technology companies. The Principals, with excellent interpersonal relationships and a history of sourcing and investing together, will take a labor-intensive, service-oriented approach in markets where members of the General Partner have direct experience.

The opportunity for seed-stage focused investors results from the changing investment environment. Traditional venture capital firms, with increasing amounts of money under management, can no longer afford to make seed investments; increased fund sizes have forced them to shift their investment focus towards later-stage investments that require more capital and less time. Formed by an experienced team, Upstart seeks to fill this funding gap as professional seed-stage investors who invest in high-growth Internet-oriented companies.

While Upstart will remain opportunistic, the prior investment experience of the Principals provide a focused Internet industry knowledge base that is well suited to the current venture investment environment. Upstart will typically invest in key enabling technology and ecommerce service companies which are more defensible than “dot.com” businesses. This strategy has proven successful as the the Principals have invested \$13.5 million in fourteen companies, and these investments now total \$133.7 million of which \$101.4 million has already been realized. Total returns (realized and unrealized) equal an annual IRR in excess of 282%, and cash-on-cash returns for all realized investments equal an annual IRR of 387% (before management expenses and profit sharing).

Upstart will focus on seed-stage investments with typical initial investments of \$250,000 to \$1,000,000. The Principals aim to acquire 20% of greater stakes in companies with pre-money valuations less than \$5 million. In order to ensure that the Principals have the sufficient time to work with portfolio companies, Upstart will average two deals per year per partner.

### State of the Market

Increasing vibrancy of the technology industry

The world is rapidly moving towards the Information Age, and technology markets are expanding at an unprecedented rate. The Internet has become the revitalizing force in the information technology industry and has significantly increased the viability of start-up companies. The Internet, a major technology dislocation, allows start-up companies to compete effectively with large, established companies in ways not previously possible. In this market, attaining enormous scale is now more viable than ever, and this phenomenon will continue, particularly as world markets accelerate the adoption of technology. The market for

## Executive Summary

technology-related products is still in its infancy, and as the market continues to grow, the size and valuations that these companies can attain will continue to escalate.

Funding gap for start-up companies

Despite increasing market opportunities for start-up companies, many traditional venture firms are decreasing their focus on seed-stage companies. This shift in investment strategy is a direct result of the increasing amounts of institutional venture capital available to the venture capital industry. According to Venture Economics, venture capital management firms enjoyed a record fund-raising year in 1997 with \$10 billion in capital commitments to independent venture capital firms. This figure represents a 33% increase from the \$7.5 billion in 1996, the previous record. With more money available, venture capital firms have raised larger funds and are forced to pursue later-stage investing. Later-stage investing allows firms to utilize the larger amounts of capital available but illustrates one of the great paradoxes of venture capital investing: *as more money becomes available for venture capital investing, less money becomes available for seed-stage companies.*

VC Fund Size Trends

| Firm            | Previous Fund |        | Current Fund |          |
|-----------------|---------------|--------|--------------|----------|
|                 | Date          | Amount | Date         | Amount   |
| Kleiner Perkins | 6/96          | \$299m | 5/99         | \$550m   |
| Mayfield        | 6/97          | \$252m | 6/99         | \$450m   |
| IVP             | 5/96          | \$187m | 4/98         | \$353m   |
| Oak             | 3/97          | \$275m | 9/98         | \$500m   |
| Battery         | 1/97          | \$200m | 3/99         | \$400m   |
| Summit          | 6/95          | \$610m | 1/98         | \$1,040m |
| Average         |               | \$235m |              | \$550m   |

## Investment Strategy

Upstart represents a return to classical venture capital with its people-oriented, start-up focus. The guiding investment philosophy of the Partnership is to forge long-term mutually beneficial working relationships with management teams and to provide a high level of on-going support in the form of time, experience and relationships in addition to capital contributions. In the Internet-related software and communications arenas, this strategy distinguishes Upstart from other venture capital partnerships.

The Partnership believes that there are significant opportunities for venture capital firms that focus on seed-stage companies. These opportunities are due to the increased focus on later-stage investments by the venture community and to the increased viability of start-ups in this age of rapid technological development. Through management, technology and strategic consulting and high-level industry relationships, the Partnership strives to provide entrepreneurs with a substantial level of support in the drive to build successful companies.

## Executive Summary

It is anticipated that the Partnership will purchase significant minority or, in limited cases, majority positions in portfolio companies with valuations less than \$5 million. Upstart will, on average, consummate two deals per year per partner, an investment pace that is well below the industry average. This model ensures that Upstart will have the time to respond to the needs of portfolio companies and to stay current on the evolving competitive and partner landscape.

The Partnership expects to be an entrepreneur's preferred start-up partner and serve as the lead investor in the initial round of financing. Upstart will typically provide seed investments from \$250,000 to \$1,000,000 to acquire initial equity positions at least 20% of a Portfolio Company's equity. With participation in future rounds of financing, Upstart is likely to invest a total of \$3-\$4 million in each portfolio company, staged over time. Upstart is prepared to participate aggressively in follow-on rounds of equity financing and will assist management in identifying co-investors for these rounds. Upstart's goal is to create liquidity within five to seven years of an investment, through a public offering, sale, or merger.

*In a sense, the real competition for Upstart is angel investors, but Upstart has the competitive advantage of "active" involvement with management and the ability to stay with companies through multiple financing rounds.*

| \$ in millions | 1997        |         | 1998        |         |
|----------------|-------------|---------|-------------|---------|
|                | \$ Invested | % Total | \$ Invested | % Total |
| Seed           | \$187       | 1.6%    | \$188       | 1.5%    |
| First          | \$3,759     | 32.6%   | \$3,633     | 29.0%   |
| Second         | \$3,180     | 27.6%   | \$3,955     | 31.6%   |
| Later          | \$4,301     | 37.3%   | \$4,711     | 37.6%   |
| Restart        | \$105       | 0.9%    | \$45        | 0.4%    |
| Total          | \$11,532    | 100.0%  | \$12,532    | 100.0%  |

Source: VentureOne Industry Monitor as of 3<sup>rd</sup> Q 1998. Figures for 1998 are annualized for purposes of comparison.

### Investment Focus

Within the information technology sector, Upstart will focus on investments in software and communications companies where the Internet is the fundamental driver of business and where the Principals have significant investment experience. Upstart will typically invest in key enabling technology and ecommerce-service companies which are more defensible than "dot.com" businesses. In software, areas of significant focus include customer-centric and ecommerce infrastructure applications as well business-to-consumer and business-to-business ecommerce services. In communications, Upstart will capitalize on significant trends including the convergence of voice and data networks, the convergence of IP and telephony, the provisioning of intelligent network-centric services, and the consumerization of the Internet.

## Executive Summary

---

### Management Experience

The Partnership is comprised of a team of three professionals with extensive operating, technical and venture capital experience in the technology sector. As such, Upstart will have the unique ability to contribute not just capital, but also direct assistance, strategic coaching, recruiting and management support to portfolio companies. The management team has: (i) excellent interpersonal relationships and a history of sourcing and investing together; (ii) a substantial number of high-level relationships in the technology industry; (iii) a strong operating knowledge of technology-related businesses; (iv) an ability to add value to portfolio companies by providing management and strategic guidance; and (v) a wide network of relationships with investment banks, accountants, consulting firms and legal firms.

### Deal Flow

Members of the General Partner have demonstrated a unique ability to source proprietary deal flow. In the past three years, members of the General Partner have made fifteen investments with eight exits, and annual returns are in excess of 100%. Members of the General Partner have been co-investors with a number of leading venture capital firms including Brentwood, August Capital, Chase Capital, JP Morgan, Vanguard, T. Rowe Price and Hambrecht & Quist. Corporate co-investors have included Microsoft, Intel, Lucent, AT&T, Softbank, Mitsui, NTT and Itochu.

This investment history evidences origination of investment deal flow from a variety of sources, including preexisting relationships with company CEOs and founders, leading venture firms, corporate investors and extended networks of support professionals including investment bankers, lawyers, consultants and accountants.

### Deepak Moorjani

Mr. Moorjani was mostly recently an executive with Société Générale in New York (now known as SG Cowen). In this capacity, Mr. Moorjani served as merchant and investment banker and was instrumental in developing his firm's technology practice in the United States. In the technology area, his past and current investments include Entrust (Nasdaq: ENTU), LikeMinds (sold to Andromedia), nBand Communications and Epicentric. His advisory clients have included Motorola, ST Microelectronics, Electronic Arts and Dassault. Through these activities, Mr. Moorjani has developed an extensive network of relationships with leading venture capital firms, operating companies, investment banks and commercial banks in the technology sector.

Previously, Mr. Moorjani was with The Lodestar Group, an investment and merchant banking boutique founded in 1988 by senior executives of Morgan Stanley and Merrill Lynch. During this time, Mr. Moorjani worked extensively with the Media & Entertainment Group and gained experience in the cable television, telecommunications and film industries. Mr. Moorjani was also active with The Lodestar Group's merchant banking effort. He is a graduate of Duke University with an AB in economics and philosophy.

## Executive Summary

---

Aymerik Renard

Mr. Renard is the U.S. investment manager for France Telecom's Innovacom venture capital division. In this role, he is responsible for sourcing, transacting and monitoring seed and early-stage Internet-related investments in the U.S. for one of the world's five largest telecommunications companies. Innovacom was founded ten years ago and has contributed to the creation and expansion of over 200 companies including Gemplus Card, Business Objects, Chorus Systems, and Com1. In 1996, Mr. Renard launched Innovacom's direct investment program in the United States and has since invested in companies such as Four11 Corporation, Tumbleweed Communications, Intershop Communications, eFusion, Cobalt and Epicentric. Prior to joining Innovacom, Mr. Renard was business development manager for Internet and online services with France Telecom North America where he conducted technological, market and strategic analyses. He also participated in partnership and joint venture negotiations in close collaboration with France Telecom's Internet-oriented operational units.

Mr. Renard is a graduate of Carnegie Mellon with degrees in Information and Decision Systems and also Policy and Management. He was recently named to the Who's Who of the Internet Community by The Industry Standard and has served on the Board of Directors of the Multimedia Services Affiliate Program.

Michael Spindler

Mr. Spindler was President, Chief Executive Officer and a Director of Apple Computer, the pioneer of the personal computer industry. In this position, Mr. Spindler held responsibility for all aspects of Apple's \$12 billion business worldwide. Joining Apple in 1980, he assumed positions of increasing responsibility including General Manager Europe, President of Apple International, President and COO in 1990, and President and CEO in 1993. He joined Apple's Board of Directors in 1991. Prior to Apple, Mr. Spindler held various engineering, sales and marketing positions with increasing responsibility at Intel Corp, Digital Equipment Corp, Schlumberger AG and Siemens AG.

Mr. Spindler is an active seed investor in a number of technology companies including Mayan Networks Inc, WeGo.com Inc, AlcheMe Inc and Product-Success.com Inc. Mr. Spindler has served as a Director of Bertelsmann AG, as a member of the International Advisory Board of Daimler-Chrysler AG, as a Director of Vidamed Inc. and as a member of the Board of Trustees of the American Film Institute in Los Angeles. Other notable achievements include executive membership in Computer Systems Policy Project (an affiliation of CEOs of leading US computer systems companies) and lead member of a US CEO delegation to the 1995 G-7 Global Information Policy Conference in Brussels. He has also delivered various keynote addresses including the information technology keynote at the 1995 World Economic Forum in Davos. Mr. Spindler is a graduate of RFH Cologne in Germany with a B.S. in Electrical Engineering.

## Executive Summary

---

### Advisory Board

Upstart Capital has elected to form an Advisory Board which is expected to contribute valuable insight and assistance in sourcing transactions, analyzing industry trends, building management teams, and augmenting Upstart' network of relationships. The Advisory Board will meet on an annual basis and is intended to function in a consultative capacity. Individual Advisory Board members will provide the General Partner with regular guidance on developing trends and matters of strategic interest. Advisory Board members will not have any Partnership governance duties or responsibilities, but it is anticipated that they will assume board of director positions with certain portfolio companies, where appropriate.

Mr. Leo Hindery

Mr. Hindery was most recently the President and CEO of AT&T's Broadband and Internet Services Group, a post that he assumed following AT&T's \$55 billion acquisition of TCI. Formerly, he was President and Director of Tele-Communications, Inc. (TCI), the world's largest multiple cable system operator with additional interests in programming, telephony and data service businesses. He is a Director of AdAuction.com, @Home Network, Cablevision, Knowledge Enterprises, and TD Waterhouse Securities, among others and was named one of the Top 25 Executives of 1998 by BusinessWeek magazine. Mr. Hindery graduated with honors from Stanford University's Graduate School of Business and with honors from Seattle University.

Mr. Brian O'Higgins

Mr. O'Higgins is Founder, Executive Vice President, Chief Technology Officer, and a Director of Entrust (Nasdaq: ENTU). Mr. O'Higgins co-founded Entrust in 1993 as Nortel Secure Networks and built it into the leading provider of public-key infrastructure products. In the most recent twelve months, Entrust had revenues of \$65 million and a market capitalization in excess of \$1 billion. The Company was recognized by The Red Herring as one of the top 50 private technology companies of 1997 and has won numerous awards from publications including Network Computing, Network Magazine and Network World. Mr. O'Higgins received a bachelor's degree in electrical engineering from Carleton University in Ottawa, Canada.

Mr. William Pade

Mr. Pade is a Director of McKinsey & Company, Inc. He is one of the leaders of McKinsey's High Technology Practice and is the Managing Partner of the McKinsey Office in Silicon Valley. His clients include telecom and computer hardware, software and services companies, e-commerce companies, and he has worked with many early stage companies to accelerate this development prior to and following successful IPOs. He is a member of several pre-IPO company Advisory Boards and McKinsey governance committees. Mr. Pade joined McKinsey in 1977 and holds an MBA from Harvard Business School and a BA from Harvard College.

## Executive Summary

---

Dr. Doug Solomon

Dr. Solomon is currently President of Paul Allen's Interval Research, a laboratory that explores new market opportunities at the intersection of technology and popular culture. Previously, he was Senior Vice-President, Strategic Planning and Corporate Development at Apple Computer where he was responsible for mergers and acquisitions, investments, strategic planning, major alliances, and technology licensing. Dr. Solomon holds a Ph.D. in Communication Research from Stanford University.

## Strategic Partner

France Telecom, one of the world's leading communications companies with revenues in excess of \$25 billion, is investing in Upstart Capital via Innovacom, its venture capital subsidiary. Innovacom will be a Special Limited Partner in Upstart and is forming a strategic relationship with the Partnership to access the Partnership's insights, relationships and deal flow in the United States. Via Innovacom, France Telecom will provide the Partnership with access to external commercialization of its research in the U.S., assist the Partnership in evaluating technologies, products and markets relevant to the Partnership's current or prospective portfolio companies, share insights with the Partnership on technology developments, explore corporate partnerships with the Partnership's portfolio companies, and co-invest with the Partnership. While France Telecom will not participate in Partnership management, the strategic relationship with France Telecom is intended to provide the Partnership with attributes and resources that will enhance the Partnership's internal capabilities in ways meaningful to the Partnership's overall performance.

## Investment Considerations

---

### Demonstrated Technology Investment Performance

The Principals have, individually and collectively, demonstrated an ability to generate attractive returns in the technology private equity market. The Principals have participated in the sourcing, transacting, and monitoring of fourteen companies with four exits in recent years, and the Principals' experience has been primarily focused on seed and early-stage investing in Internet-related software and communications companies. The Principals have invested \$13.5 million in fourteen companies, and these investments now total \$133.7 million of which \$101.4 million has already been realized. Total returns (realized and unrealized) equal an annual IRR in excess of 282%, and cash-on-cash returns for all realized investments equal an annual IRR of 387% (before management expenses and profit sharing).

### Accelerating Importance of Technology Sector

Technology is one of the largest and most rapidly growing sectors of the economy. The widespread adoption of the Internet has revolutionized the manner in which organizations communicate and conduct business, and technology is firmly embedding itself into the fabric of the economy and society. Upstart is being formed at a time when technology is taking an accelerating importance in the U.S. economy; according to U.S. Department of Commerce estimates, technology revenues have grown approximately 15% per year since 1993, roughly five times the growth rate of the rest of the U.S. economy. Now accounting for approximately 8.2% of U.S. GDP, information technology is more than a tool of automation and has become the actual foundation for growth changing the basis for economic value from resource scarcity to knowledge and innovation.

### Unique Seed-Stage Focused Venture Capital Fund

Many venture funds have taken advantage of the favorable market environment to raise larger and larger funds; however, the greater amounts of money have forced these firms to pursue capital-intensive later-stage investing. Venture capital, a specialized type of money management, is a business that scales very well; simply, there are economic incentives to raise larger funds. With larger funds, managers have greater amounts of guaranteed income given the fixed nature of the management fee. Venture managers also lower their investment risk by investing in later-stage companies when much of the risk (management, market and technology) has been eliminated, and an exit is more immediate. As such, seed-stage investments are increasingly ignored by traditional venture capital firms and account for only 2%, or \$250 million, of total annual investments. With this funding gap, there is an opportunity for a new class of professional seed-stage venture funds. In a sense, the real competition for Upstart is angel investors, but Upstart has the competitive advantage of "active" involvement with management coupled with the ability to stay with companies through multiple financing rounds.

## Investment Considerations

---

### **Favorable and highly targeted investment focus**

Within the information technology sector, Upstart will invest in software and communications companies that leverage the power of the Internet. The recent evolution of the Internet and advanced networks provide an attractive medium for communications and commerce due to their global reach, accessibility, reliance on open standards, and real-time nature. The Internet is rapidly becoming a critical medium for collecting and exchanging information and conducting commerce, presenting huge opportunities in the software and communications arenas. As these markets continue to expand at unprecedented rates, the potential to build large, highly valuable enterprises increases exponentially, especially with the continued internationalization of technology markets.

### **Emphasis on Value-Added Investing**

Upstart represents a return to classical venture capital with its people-oriented, start-up focus. With a pool of capital smaller than the industry average, the Partnership is structured so that its partners are not pressured simply “to put money to work.” Rather, the Partnership’s priority is to assist its portfolio companies with high levels of support. As a partner with portfolio companies, Upstart will collaborate on strategic, operating, and recruiting issues and provide a network of pertinent industry contacts, critical resources for portfolio companies. The Partnership will focus on seed-stage investments in areas where it has proven experience as well as relationships and expertise. Upstart will limit the number of investments it makes and will, on average, consummate two deals per year per partner, well below the industry average. This model ensures that Upstart will have the time to respond to the needs of portfolio companies and to stay current on the evolving competitive and partner landscape.

### **Led by a seasoned and complementary team**

Upstart is comprised of three high-energy individuals with a unique marriage of venture capital, operating and financial experience in the technology sector. This combination of experience provides a more balanced view of the issues facing start-ups. In the venture capital arena, the Principals have a unique breadth of experience in all stages of venture capital investing from individual angel investing to late-stage investing. This breadth of experience is a competitive advantage and provides a better perspective of the full lifecycle of start-ups and how companies must be positioned for successful follow-on rounds. With extensive prior experience investing in Internet-related software and communications start-ups, the Principals possess a focused industry knowledge base that is well suited to the current venture investment environment. This experience will allow the management team to quickly establish the Upstart “brand” among the start-up community, a community that is typically hesitant to work with unproven venture capitalists. The Principals have been users of computing and networks since the late 1970s and early 1980s, providing a unique sense of industry history and long-term perspective. The Principals also have a unique competitive advantage in that they possess significant international experience and relationships in Europe and Asia and understand that the proliferation of technology is a global phenomenon.

## Investment Considerations

---

### Proven ability to generate proprietary deal flow

The Principals have demonstrated a unique ability to source proprietary deal flow and have co-invested with a number of leading venture capital firms including Brentwood, August Capital, Chase Capital, JP Morgan, Vanguard, T. Rowe Price and Hambrecht & Quist. Corporate co-investors have included Microsoft, Intel, Lucent, AT&T, Softbank, Mitsui, NTT and Itochu. This investment history evidences origination of investment deal flow from a variety of sources, including preexisting relationships with company CEOs and founders, leading venture firms, corporate investors and extended networks of support professionals, including lawyers, consultants, accountants, and investment bankers.

### Increasing Viability of Start-ups

Despite a decreasing focus on seed-stage investments by the venture community, the Internet, a 25-year overnight success, has become the revitalizing force in the information technology industry and has significantly increased the viability of start-up companies. It is a major technology discontinuity that allows start-up companies to compete effectively with large, established companies in ways not previously possible. In fact, the Internet creates significant competitive advantages for start-up companies. Unlike large, established companies, start-ups are unencumbered by “legacy” issues that typically hinder established companies. The market for technology-related products is still in its infancy, and as the market continues to grow, the size and valuations that these companies can attain will continue to escalate. In this market, attaining enormous scale is now more viable than ever, and this phenomenon will continue, particularly as world markets accelerate technology adoption.

### Distinct team-based investment approach

The Principals form an excellent team with a history of sharing deal flow and jointly consummating investments. This ability to work together is an essential and unique aspect of the Upstart approach. With excellent interpersonal dynamics, Upstart will operate as a team, not as a collection of individuals, and investments will require unanimous consent. The Partnership believes that every member of the firm has a unique and valuable perspective, and as such, intends to have each member of the Partnership involved with each portfolio company, to the extent practicable. Upstart has witnessed other venture firms whose partners operate as individuals and often compete for resources, and the Partnership believes that this is a less than optimal way to serve portfolio companies. This collaborative approach fundamentally provides a better architecture for portfolio companies who will benefit from having access to the combined and distinct resources of the firm.