Case # 5-0002

TUCK SCHOOL OF BUSINESS AT DARTMOUTH

CENTER FOR PRIVATE EQUITY AND ENTREPRENEURSHIP

Updated August 14, 2003

BeVocal, Inc. (A)

It was a late June, Friday afternoon in Sunnyvale, CA. Steve Tran, co-founder of BeVocal, Inc. had just received a message from an agitated-sounding Bob Miller. Miller, one of the original angel investors in BeVocal and a member of the BeVocal Board of Directors, was very concerned about the proposed term sheet offered by Technology Crossover Ventures (TCV) for a $20M Series C funding round to be jointly led by Mayfield Fund, US Venture Partners (USVP), and TCV. Mayfield, USVP and TCV had all been significant investors in the prior $45.6M Series B funding round. Miller thought the proposed terms were terrible and simply could not be accepted. He wanted to meet the BeVocal management team the first thing Monday morning to discuss his thoughts.

As Tran sat back in his chair and thought about what potential objections Miller might have, he was somewhat perplexed. Granted, this was a down round from the April 2000, $45.5M Series B round and all early investors not participating in Series C would be squeezed, but this was still $20M in funding that should be sufficient to get the company through the current economic downturn. The funding environment in general was terrible. No other companies were being funded – certainly not a modest 20% discount to the prior round, where BeVocal had been valued at over $100M at the closing. This $20M infusion, led by $10M from the same investors that had fueled the B round and an additional $10M from yet to be determined outside investors, would be sufficient to sustain BeVocal through the current economic downturn and help it achieve a profitable industry leading position. What was Miller concerned about? This was the question that Tran and the other executives at BeVocal had the weekend to contemplate.

This case was written by Sean Ruhmann T'03 under the supervision of Adjunct Assistant Professor Fred Wainwright and Professor Colin Blaydon of the Tuck School of Business at Dartmouth College. It was written as a basis for class discussion and not to illustrate effective or ineffective management practices.

Company Background

BeVocal, Inc. was founded in March of 1999 with the goal of bringing the power of voice-enabled applications to every phone. The company was started by Mikael Berner, Kevin Stone, Amol Joshi and Steve Tran. Berner, Stone and Joshi originally met while working together at Panasonic in the digital signal processing (DSP) product development group. Tran and Joshi later became acquainted while the two were attending graduate school at the Tuck School of Business at Dartmouth College, prior to BeVocal's start in 1999 (see Exhibit 1).

BeVocal's founding mission was to help telecommunications carriers generate increased revenue from their networks by delivering increased value to customers. Primary clients included wireless and wireline service providers such as BellSouth, Cingular, Qwest Wireless and Virgin Mobile USA. Clients used BeVocal's software to deliver voice-enabled services such as voice dialing, voicemail, email reading and voice portals to their customers. These services delivered bottom-line results to carriers through increased subscriber revenues (monthly subscription fees, increased usage, or upselling to premium bundles) and decreased costs (automating customer service call centers and directory assistance). These services could be either hosted on BeVocal's network or installed within the carrier's network. Carriers typically implemented the services initially using BeVocal's hosted solution and then migrated the software onto their own network as call volume increased.

BeVocal's application software ran on top of the BeVocal Foundation Platform, a carrier-grade software platform comprised of integrated software modules to run, manage and monitor voice-enabled applications written in the specialized industry standard scripting language for voice applications called VoiceXML. These applications, combined with the Foundation Platform enabled clients to deliver targeted and customized voice services to customers. The BeVocal Foundation Platform contained scalable nodes that processed speech, ran applications, created services, administered systems, and integrated with back-end services. Each type of node added a specific capability to a carrier's network. Nodes could be physically deployed at a centralized site or distributed among multiple sites within the network.

BeVocal employed a basic software licensing business model. Its primary source of revenue was from licensing platforms and applications software to telecom companies. Revenue was generated from per subscriber licensing fees for applications and per port licensing fees for platforms. BeVocal was privately owned, and had raised $46.7M of financing through two rounds of funding. In

September 1999, the company had closed a $1.2M Series A funding round from prominent Silicon Valley entrepreneurs and executives. In April 2000, the company had closed a $45.5M in Series B funding from leading Silicon Valley venture capital firms.

The total worldwide market for speech recognition services delivered via telecommunications carriers, including voice portals, voice activated messaging, and automated directory assistance, was expected to reach over $41 billion by 2005. BeVocal's addressable market for carrier-grade voice platforms and applications was expected to grow to $16 billion worldwide by 2005. This predicted growth in demand for voice services was driven in part by the rapid penetration of mobile phone use. In 2000, more than 86M Americans had wireless telephone service. This figure was expected to grow to more than 104M in 2001. By 2004, more than 1.4 billion people worldwide were expected to access the Web via mobile phones compared to an expected 600M using PCs.

Series A Funding

In September 1999, BeVocal secured $1.2M in Series A funding ($0.28 / share) from prominent Silicon Valley entrepreneurs and executives (angel investors). The leading investors from this round were Skip Stritter, Charles Corfield and Bob Miller (see Exhibit 2). Stritter was the Chairman of Clarity Wireless (acquired by Cisco), founder and VP of Technology of NeTpower, founder and CTO of MIPS (acquired by SGI), and chief architect of the Motorola 68000 family of processors. Corfield was the founder and CTO of Frame Technology (acquired by Adobe) and an early investor in Netscape, Infoseek, Liberate, and iBasis. Miller was the founder and Chairman of Slam Dunk Networks, Chairman and CEO of NeTpower and MIPS (acquired by SGI), and the prior COO of Data General and Director of IBM's R&D Laboratories in Boulder, CO.

Collectively, these investors brought important strengths to the BeVocal team. In particular, they were proven entrepreneurs with multiple start-up successes and more than 25 years of operating experience. They were well respected by top venture capitalists. In addition, they had played active roles in previous start-ups, providing hands-on help and demonstrating a willingness to mentor and coach the BeVocal founders. Miller in particular had a reputation for focusing on the best interests of the companies in which he invested and advised. This was especially important to BeVocal given his appointment to the BeVocal Board of Directors.

Following the closing of Series A, the founders began to hire their first employees, scaling the company to over a dozen people, almost all engineers. This headcount growth forced the company to move out of its original offices, located in Tran's Palo Alto, CA apartment, to a modest rent-free office space located within Panasonic's R&D lab based in Mountain View, CA. The team focused nearly all of its energies building an early production version of its platform and applications software. This early version was debuted in January 2000 at Internet Showcase in Palm Springs, CA, an annual conference demonstrating new and promising technologies from both startups and established technology companies. Against a competitive field of over 150 other companies, BeVocal demonstrated its newly developed voice-enabled applications and managed to secure both the Investors' Choice and Peoples' Choice Awards, two of the three top prizes available at the conference. In February 2000, based on this success and under the strong guidance of its angel investors, BeVocal set out on its next challenge – raising its first institutional round of funding.

Series B Funding

In April 2000, BeVocal secured $45.5M in Series B funding ($2.95 / share) from leading Silicon Valley venture capital firms including Mayfield Fund, US Venture Partners, Technology Crossover Ventures, and Trans Cosmos USA (see Exhibit 3 for series B capitalization table).

Mayfield was a leading venture firm focused on next-generation technology companies in communications and enterprise software. Since the firm's founding in 1969, Mayfield had invested in more than 425 companies taking over 100 public, with these portfolio companies yielding an aggregate market value of over $232 billion. Yogen Dalal, managing general partner at Mayfield, was the main sponsor of BeVocal deal (see Exhibit 4). Dalal had served as the Chairman of Nuance Communications and was the founder of Claris, Metaphor, and an early contributor to the development of TCP/IP.

Technology Crossover Ventures was founded in 1995, and was a provider of growth capital to technology companies. With its crossover-investing model, TCV provided funds to expansion and late stage private companies, as well as public companies. Additionally, TCV managed a technology focused public market hedge fund, the TCV Franchise Fund. During its history, TCV had invested in a number of public companies, and over 125 private companies, 34 of which had successfully completed their initial public offerings. With over $2.5 billion under management, the firm had twelve partners and was headquartered in Palo Alto, California. Mike Linnert, partner at TCV, was the main proponent of BeVocal at TCV (see Exhibit 4). Linnert had several years of technology finance experience and had previously been an investment banker at Goldman Sachs.

US Venture Partners (USVP) was a venture capital firm dedicated to helping entrepreneurs build and grow solid companies. Since its inception in 1981, USVP had raised more than $2.5 billion in eight funds and had invested over $1.1 billion in more than 280 companies. Irwin Federman, managing general partner at USVP, was the key sponsor of BeVocal at USVP (see Exhibit 4). Federman had served on the board of directors of Nuance Communications and was the Chairman and CEO of Monolithic Memories (acquired by AMD).

Trans Cosmos USA was a strategic investment and business development company. Its goal was to help leading-edge Internet-based technology companies from America and Europe expand into the Japanese marketplace. As both a strategic international investor and an active local business partner, Trans Cosmos provided capitalization of joint ventures, infrastructure development, and strategic relationships.

Collectively, these B round investors brought important strengths to the BeVocal team. They were high profile top-tier VC firms with strong brand equity that brought increased credibility and visibility to BeVocal and its products. They had proven experience in related speech and telecommunications investments and had extensive contacts throughout the industry. Finally, they had deep pockets with all having raised $1 billion+ funds.

With this infusion of cash, BeVocal continued to build and develop its core products and ramped up its sales and marketing efforts to secure customers. During the summer of 2000, BeVocal deployed its hosting network, launched its 1-800-4BVOCAL consumer voice portal service, and was awarded *Best of Show - Voice Technology Product & Services* at Upside Magazine's Digital Living Room Conference.

In October 2000, BeVocal partnered with Qwest Wireless to deploy Qwest Voice Browsing, the first mobile voice portal introduced in the US by a major wireless carrier. Qwest was the first telecommunications customer of BeVocal's voice-enablement solutions. In November 2000, BeVocal teamed with Sprint PCS to launch a five-city trial of the BeVocal powered, Sprint PCS Voice Command service. Additionally, BeVocal launched its carrier partnership program to bring third-party applications developed through the BeVocal Café, the company's online VoiceXML developers environment, to wireless and wireline telecom companies. As a result of these accomplishments, in January 2001, BeVocal received the top ranking for the best VoiceXML development and hosting environment based on independent tests conducted by CT Labs.

In March 2001, BeVocal secured Worldcom as a customer for its voice solutions and in April 2001, BeVocal and iBasis expanded the BeVocal Café to provide local access to VoiceXML developers in Europe. In May 2001, BeVocal formally unveiled the Foundation Platform, an in-network solution for powering enhanced telecom services. Fueled by these accomplishments, in June, BeVocal received the 2001 Titan Award by Wireless Review Magazine for being a leader and innovator in the wireless voice space.

By summer 2001, it was apparent that the company was gathering significant momentum and customer traction. In fact, BeVocal was in the midst of closing contracts with Cingular Wireless and BellSouth Corporation, two additional tier-one telecommunication carriers. These customers, combined with BeVocal's prior customer wins, would give the company a market reach extending to over 70M end-user subscribers. Commensurate with the growth of BeVocal's customer base was the growth in its burn rate. From a modest team of 12 employees just prior to the closing of Series B, the company had grown to a peak of over 160 employees. To accommodate the growth, BeVocal relocated from a 1,200 sq. ft. lab space within Panasonic's offices to a 49,000 sq. ft. office located in Sunnyvale, CA. At the urging of its venture capital board members, BeVocal also embarked on an executive search for a "gray-haired" CEO to place at the helm and lead the company through its next stage of growth.

To fund this growth, BeVocal had to also raise another round of financing. Knowing that the climate for raising venture capital had deteriorated significantly since the closing of the Series B round, Tran and Berner had already begun meeting with potential investors as early as February 2001. By May, after meeting with a countless number of venture capital firms and strategic corporate investors, BeVocal had managed to amass a small number of investors interested in participating in a Series C round. Given the deteriorating economic environment, however, none were willing to step up to lead the round. At the end of May, the BeVocal management team presented the results of this fundraising effort to the Board of Directors and asked its prior investors, Mayfield, TCV and USVP, to lead the Series C round.

Series C Funding

In June of 2001, BeVocal received a proposed term sheet from TCV for $10M of funding led by Mayfield, TCV and USVP with an additional $10M to be supplied from new external investors. The key terms and conditions of the proposed term sheet are listed in Exhibit 5. Discussions regarding this funding had been in the works for several months, but this was the first actual term sheet that had been received. The new external investors, which included BellSouth, RBC Dain Rauscher and angel investors, had tentatively agreed to supply the additional $10M necessary to reach the required $20M of financing. The round was based on a pre-money valuation of approximately $80M at a share price of $1.67 per share.

As BellSouth, RBC Dain Rauscher and the other new investors had not reviewed the details of the proposed terms, the additional $10M investment was prospective and entirely dependent on their complete review of the final terms and conditions proposed by Mayfield, TCV and USVP. The new investors would receive the term sheet after BeVocal's review and approval of the terms put forth by Mayfield, TCV and USVP.

Discussion Questions

1. Determine and be prepared to explain the key differences between the Series C proposed term sheet (see Exhibit 5) and the Series C Revised Term sheet (see Exhibit 7).

2. In comparing the proposed and revised capitalization tables, why might Bob Miller have been concerned? Who's interests was Miller looking out for (the founders, the employees, Series A investors, Series B investors, or the new outside investors)?

EXHIBIT 1: FOUNDERS[1]

C. Mikael Berner
Berner had extensive experience in developing voice communications solutions for wireless and wireline carriers. He gained this experience while working as the Software Applications Manager at ZSP Corporation, and as a System Architect at Panasonic in Osaka where he worked to develop the systems for PHS - a Japanese digital wireless system. PHS was one of the most successful electronic consumer products in history growing to over 1million units sold 6 months after launch. Berner received his master's degree in Electrical Engineering from Cornell University where he specialized in DSP algorithms. He also earned a bachelor's degree in Electrical Engineering from the University of Pittsburgh.

Kevin Stone
Stone had technical expertise in telecom systems integration, IP telephony, and wireless communications systems design. Stone was a wireless industry veteran and helped design the DSPs for Panasonic's best-selling mobile handsets in Japan. Stone honed his technical skills through engineering and product management roles at ZSP Corporation and as a Senior DSP Design Engineer at Panasonic. Stone received a bachelor's degree in Electrical Engineering and Computer Science and a master's degree in Electrical Engineering from the University of California, Berkeley.

Steve Tran
Tran was one of the founding team members of the Moai Technologies, a provider of strategic e-sourcing software solutions to Global 2000 companies. Tran has in-depth experience in investment banking, corporate finance, and mergers and acquisitions (M&A) in the technology sector. He worked as a Senior Manager of Business Development at Cadence Design Systems, as the VP of Finance of Moai, and as an M&A Associate at Petrie Parkman & Co. Tran earned an MBA from Dartmouth College, and received his undergraduate bachelor's degree at Rice University in Electrical and Computer Engineering.

Amol Joshi
Amol acquired his industry expertise in corporate marketing, corporate communications, and developer marketing while working as the Asia Sales Manager for Brooktrout Technology, as the Director of Business Development for Asia-Pacific for NeTpower, and as a DSP Research Engineer at Panasonic, where he patented two audio signal processing products. Amol graduated from Dartmouth

[1] BeVocal, Inc. company information

College with an MBA and a master's degree in Engineering Sciences. He was a President's Scholar at Georgia Tech, where he received a bachelor's degree in Electrical Engineering and graduated with highest honors.

EXHIBIT 2: ANGEL INVESTORS[2]

Skip Stritter
Stritter was an independent investor and advisor to small high-tech startups. In 1998, Stritter founded and served as the Chairman of Clarity Wireless, which was Cisco Systems' first major wireless acquisition. At Cisco he was director of business development and technology partnership strategy for the broadband wireless market. He previously co-founded MIPS Computer Systems, developer of the first RISC microprocessors. He served as the VP of Engineering at MIPS, and then moved to the role of VP of Development Programs after MIPS was acquired by Silicon Graphics. Prior to founding MIPS, Stritter was the chief architect of the Motorola 68000 family of microprocessors. He was also the co-founder and VP of Technology of NeTpower, a manufacturer of Windows NT multiprocessor machines targeted at the digital media and video server markets. Stritter received his bachelor's degree in Mathematics from Dartmouth College and M.S. and Ph.D. degrees in Computer Science from Stanford University. He serves on the Board of Overseers of The Thayer School of Engineering at Dartmouth College, and on the boards of several high-tech startups.

CharlesCorfield
Corfield co-founded Frame Technology (producer of FrameMaker software) in 1986 and was its Chief Technology Officer and a member of its board of directors until the company was acquired by Adobe Systems in 1995. He currently serves on the board of directors of two publicly traded technology companies, Liberate (a manufacturer of set-top boxes for interactive television) and iBasis (a global wholesaler of IP telephony services). Corfield was also one of the early investors in Infoseek, Netscape, and Tumbleweed Communications and has been a partner since 1996 at venture capital firms Whitman Capital and Mercury Capital. Corfield attended Cambridge University, where he graduated with First Class Honors in Mathematics.

Bob Miller
Miller is the co-founder and CEO of Slam Dunk Networks, a provider of secure transaction systems for the real-time delivery of business-to-business trading information. He is also the Chairman of Clarity Systems, a startup that provides Fortune 1000 companies with software and services for integrating back office operations with e-commerce systems. Previously, he was the founder, Chairman, and CEO of NeTpower. Prior to NeTpower, Miller was the Chairman and CEO of MIPS Computer Systems. Miller served on the board of directors of Silicon

[2] BeVocal, Inc. company information

Graphics after its acquisition of MIPS. Prior to MIPS, he was the COO of Data General and held several executive positions at IBM, including serving as the Director of IBM's Boulder Lab. Miller received his bachelor's degree in Physics from Bucknell University and his M.S. in Physics from Stanford University.

EXHIBIT 3: SERIES B INFORMATION

General Information:
Date Closed: March 2000 (2.5 month fundraising process)

Amount Closed*: $45.5M*
Lead Investors: Mayfield, USVP, TCV

Other Investors*: Transcosmos USA, Angel Investors*

Key Terms and Conditions:
Total: $45.5M ($33.3M from Leads)
Pre-Money Value: $50.0M
Liquidation Preference: 1x Purchase Price
Anti-Dilution: Broad-based weighted average adjustment
Board Representation: 2 Series A; 3 Series B; 2 Common

Capitalization Table:

	Post Money Series A	Post Money Series B
Pre-Money Value	$ 3,500,000	$ 50,000,000
Amount Raised	$ 1,183,016	$ 45,523,751
Post-Money Value	$ 4,683,016	$ 95,523,751
Price Per Share	$ 0.28	$ 2.95

Pre Money	Shares	Percentage	Shares	Percentage
Founders Common Stock	7,500,000	44.2%	7,500,000	22.5%
Series A Preferred Stock	4,225,058	24.9%	4,225,058	12.7%
Series B Preferred Stock	0	0.0%	15,431,780	46.4%
Series C Preferred Stock	0	0.0%	0	0.0%
Warrants Total	203,934	1.2%	1,098,213	3.3%
Employee Option Pool Total	5,025,025	29.6%	5,025,025	15.1%
Total	16,954,017	100.0%	33,280,076	100.0%

EXHIBIT 4: VENTURE CAPITAL INVESTORS[3]

Yogen Dalal - Managing Partner, Mayfield
Yogen was a Managing Partner at Mayfield and specialized in early-stage Internet infrastructure and B2B and B2C e-commerce investments. He was on the boards of BroadVision (BVSN), Nuance (NUAN), Tibco (TIBX), eTime Capital, eScout, SingleSourceIT, BeVocal, DoughNET, Snapfish, and ThirdVoice. Prior to joining Mayfield, he was a founding member of two successful start-ups, Claris Corporation and Metaphor Computer Systems. A highly respected technologist, Yogen was a member of the original Star and Ethernet development teams at Xerox PARC and helped design TCP/IP while at Stanford. He holds a Ph.D. in Electrical Engineering from Stanford University and a BTech in Electrical Engineering from the Indian Institute of Technology, Bombay.

Irwin Federman - General Partner, USVP
Irwin joined USVP as a General Partner in April 1990. Previously he was President and CEO of Monolithic Memories, Inc. MMI was a startling turnaround. Under Irwin's leadership, the Company grew from virtual bankruptcy to $250M in revenues during his nine-year tenure as CEO, culminating in a merger with AMD at a valuation of approximately $450M. Irwin was also two-term Chairman of the Semiconductor Industry Association, has served on the Board of Directors of the National Venture Capital Association and served two terms on the Dean's Advisory Board of Santa Clara University. As CEO at Monolithic Memories, Irwin initiated MMI investments in such highly successful venture capital start-ups as Cypress Semiconductor, Xilinx and Altera. As a professional venture capitalist, Irwin was a founding lead investor in Crescendo Communications, Power Integrations, SanDisk, TelCom Semiconductor, Resumix, CheckPoint Software, MMC Networks, Centillium Communications, Netro, Nuance Communications and QuickLogic. Irwin received a B.S. in Economics from Brooklyn College and was awarded an Honorary Doctorate of Engineering Science from Santa Clara University.

Mike Linnert - General Partner, Technology Crossover Ventures
Linnert joined TCV as an Associate in 1997 and became a General Partner of the firm in 1999. He brings over seven years of technology financing experience to TCV. Linnert's focus includes Infrastructure Hardware and eCommerce. He has led or co-led investments in Allbusiness.com (sold to NBCi), Alteon WebSystems, Inc., Applied Science Fiction, BeVocal, CacheFlow, Copper Mountain, Encompass (sold to Yahoo!), HomeGain, MyPoints.com, Switchouse and Vacationspot.com (sold to

[3] BeVocal, Inc. company information

Expedia). Previously, Linnert spent three years as an investment banker at Goldman Sachs where he worked with technology companies. Linnert also worked as a product manager at 3Com developing advanced products to deliver high-end server connectivity and as manufacturing engineer in Delco Products (a division of General Motors). Linnert received a B.S. in Electrical Engineering with Highest Honors from the University of Notre Dame and an M.B.A. from the Stanford Graduate School of Business. He is on the Board of Directors of several private companies.

EXHIBIT 5: SERIES C PROPOSED TERM SHEET

General Information:
Expected Close: August 2001

Expected Amount*: $20M (up to $10M to come from new external investors)*

Pre-Money Value: $80.7M
Liquidation Preference: 2x Purchase Price
Anti-Dilution: Broad-based weighted average adjustment; pay-to-play for future rounds

Board Representation: *2 Series A; 3 Series B; 1 Common; 1 CEO; 1 outside*

Key Terms and Conditions:

Investment Amount:	$20 million
Securities:	Series C Convertible Preferred Stock - (the "Preferred") $20 million of Preferred to be authorized and issued in the form of 12,012,012 shares.
Price per Share:	$1.665 (the "Original Purchase Price"). The Original Purchase Price represents a fully-diluted pre-money valuation of $80.7 million (after taking into account the adjustments to the Series B Preferred described below).
Investors:	TCV: $3.3 million; Mayfield: $3.3 million; USVP: $3.3 million; Other Investors: Up to $10 million
Capitalization:	The Preferred will represent ~19.85% of the total outstanding capitalization of the Company on a fully diluted basis after taking into account the adjustment to the conversion price of the Series B Preferred Stock.
Repricing of the Series B Preferred:	In connection with the issuance of the Series C Preferred Stock, the conversion price of the Series B Preferred shall be decreased to $1.665 (this also applies to series B warrants).
Increase in Option Pool	None

EXHIBIT 6: SERIES C PROPOSED CAPITALIZATION TABLE

	Pre-Money Series C		Series C Original Proposed Terms	
Pre Money Valuation	$61,097,500		$80,737,758	
Price Per Preferred Share	$2.95		$1.67	
Amount Raised	$45,523,751		$20,000,000	
Post Money Valuation	$106,621,251		$100,737,758	
	# Shares	**%**	**# Shares**	**%**
Pro Forma Shareholders' Equity				
Series A Convertible Preferred	4,225,058	11.69%	4,225,058	6.98%
Series B Convertible Preferred				
Series B Preferred	15,431,780	42.70%	15,431,780	25.51%
Series B Repricing Adjustment	-	0.00%	11,909,813	19.68%
Series B Anti-Dilution Adjustment	-	0.00%	-	0.00%
Series B Convertible Preferred Total	15,431,780	42.70%	27,341,593	45.19%
Series C Convertible Preferred				
Existing Series B Investors	-	0.00%	6,006,006	9.93%
New Investors	-	0.00%	6,006,006	9.93%
Series C Convertible Preferred Total	-	0.00%	12,012,012	19.85%
Founders' Common	7,500,000	20.75%	7,500,000	12.40%
Warrants				
Series B Warrants	568,220	1.57%	568,220	0.94%
Series B Repricing Adjustment		0.00%	438,536	0.72%
Series B Anti-Dilution Adjustment		0.00%		0.00%
Other Warrants	392,714	1.09%	392,714	0.65%
Warrants	960,934	2.66%	1,399,470	2.31%
Employee Option Pool				
Tranche A	5,025,025	13.90%	5,025,025	8.31%
Tranche B	3,000,000	8.30%	3,000,000	4.96%
Tranche C	-	0.00%	-	0.00%
Employee Option Pool	8,025,025	22.20%	8,025,025	13.26%
Total Common Equivalents	36,142,797	100.00%	60,503,158	100.00%

EXHIBIT 7: SERIES C REVISED TERM SHEET

General Information:
Expected Close: August 2001

Expected Amount*: $20M (minimum of $10M to come from new external investors)*
Pre-Money Value: $50M
Liquidation Preference: 1x Purchase Price
Anti-Dilution: Broad-based weighted average adjustment; pay-to-play for future rounds

Board Representation: *2 Series A; 3 Series B; 1 Common; 1 CEO; 1 outside*

Key Terms and Conditions:

Investment Amount:	$20 million
Securities:	Series C Convertible Preferred Stock - (the "Preferred") $20 million of Preferred to be authorized and issued in the form of 18,784,323 shares. (this defines the exact $ / share).
Price per Share:	$1.06 (the "Original Purchase Price"). The Original Purchase Price represents a fully-diluted pre-money valuation of $50,000,000 (after taking into account the adjustments to the Series B Preferred described below).
Investors:	TCV: $3.3 million; Mayfield: $3.3 million; USVP: $3.3 million; Other Investors: Minimum of $10 million
Capitalization:	The Preferred will represent ~28.57% of the total outstanding capitalization of the Company on a fully diluted basis.
Increase in Option Pool	6M new shares shale be added to the employee option pool prior to closing.

EXHIBIT 8: SERIES C REVISED CAPITALIZATION TABLE (TO BE COMPLETED)

	Pre-Money Series C		*Series C Final Terms*	
Pre Money Valuation	$61,097,500		$50,000,000	
Price Per Preferred Share	$2.95		$1.06	
Amount Raised	$45,523,751		$20,000,000	
Post Money Valuation	$106,621,251		$70,000,000	
	# Shares	**%**	**# Shares**	**%**
Pro Forma Shareholders' Equity				
Series A Convertible Preferred	4,225,058	11.69%	4,225,058	6.43%
Series B Convertible Preferred				
Series B Preferred	15,431,780	42.70%	15,431,780	23.47%
Series B Repricing Adjustment	-	0.00%		0.00%
Series B Anti-Dilution Adjustment	-	0.00%	4,533,404	6.90%
Series B Convertible Preferred Total	15,431,780	42.70%	19,965,184	30.37%
Series C Convertible Preferred				
Existing Series B Investors	-	0.00%	9,392,161	14.29%
New Investors	-	0.00%	9,392,161	14.29%
Series C Convertible Preferred Total	-	0.00%	18,784,323	28.57%
Founders' Common	7,500,000	20.75%	7,500,000	11.41%
Warrants				
Series B Warrants	568,220	1.57%	568,220	0.86%
Series B Repricing Adjustment		0.00%		0.00%
Series B Anti-Dilution Adjustment		0.00%	284,605	0.43%
Other Warrants	392,714	1.09%	392,714	0.60%
Warrants	960,934	2.66%	1,245,539	1.89%
Employee Option Pool				
Tranche A	5,025,025	13.90%	5,025,025	7.64%
Tranche B	3,000,000	8.30%	3,000,000	4.56%
Tranche C	-	0.00%	6,000,000	9.13%
Employee Option Pool	8,025,025	22.20%	14,025,025	21.33%
Total Common Equivalents	36,142,797	100.00%	65,745,129	100.00%