Accel Partners VII

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As the summer of 1999 began, Julie Robins, the chief investment officer of the Angel Foundation, was considering whether to invest in Accel Partners' latest venture capital fund – Accel Partners VII. Accel was seeking to raise $500 million. The Angel Foundation had been a limited partner (investor) in Accel's previous three funds – Accel Partners IV, V, and VI. Those funds had generated returns well above those typical for venture capital funds. In fact, the net returns to limited partners on Accel Partners IV and V were running above 100% per year. Exhibit 1 provides a recent record of historical returns for venture capital funds by vintage year.

While 100% plus returns were obviously spectacular, Julie was concerned that Accel had decided to raise the fees it would charge its limited partners. In its previous fund, Accel had charged a management fee of 2.5% and a carried interest (or profit share) of 25%. This already exceeded the industry standard of 2.5% and 20%. In Accel Partners VII, Accel proposed to raise the carried interest to 30% of profits. James W. Breyer, Accel's managing partner, argued that:

> "the higher profit share would help it retain and attract new talent. We have the same investment team that has been investing the last three Accel funds, and at the same time, we have greatly strengthened the team with new additions …"2

At a 30% carry, Accel would join a select group of private equity firms that included Bain Capital, Kleiner, Perkins, Caulfied & Byers, and, under some circumstances, Benchmark Capital.

1. The Structure of Private Equity Partnerships[3]

A. Compensation

Private equity partnerships (PEPs) are compensated primarily through a management fee and through a carried interest or profit share.

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[1] Some information and facts have been disguised.
[2] Private Equity Analyst, July 1999.
[3] This section is based in part on and borrows from Gompers and Lerner (1999), Lerner (1996), Mercer (1997), and Sahlman (1990).

Management fees are used to pay for the ongoing operating expenses of the partnership. . The fees are typically payable quarterly in advance. The "typical" arrangement for management fees is for a fund to charge an annual fee of 1.5% to 2.5% of total committed capital. Less frequently, management fees are calculated based on invested capital or on net asset value. It is common for the management fee to decline in the later years of a fund – e.g. from years 7 to 12.

The carried interest is the share of the fund's profits received by the general partner / PEP. The most common carried interest split is 80/20, with 20% of profits going to the PEP. Gompers and Lerner (1999) report that over 80% of private equity funds charge a carry between 20% and 21%. According to Mercer (1997), "the 80/20 split is attributable to the early years of the private equity industry where a 20% carried interest was considered to be a substantial incentive for the general partner's performance."

The carried interest, in turn, is then divided among the individual members of the PEP. The division is generally not disclosed in a fund's offering memorandum. .

There are three traditional methods for computing the carried interest: deal-by-deal, aggregation, and hurdle rates. Under the deal-by-deal method, the PEP would have a carried interests in the profits of each individual deal. While more common in the 1980s, this method was rarely used in 1990s partnerships.

Under the aggregation method, a fund's entire portfolio is aggregated. The PEP receives a carried interest in the profits of the entire portfolio. This method generally relies on one of two different calculations to determine the timing of the PEP carry. In the first type of calculation, the PEP does not receive its carry until the PEP has returned the fund's total committed capital to the fund's investors or limited partners (LPs). In the second, the PEP receives its carry on any distribution as long as the value of the fund's portfolio is sufficiently greater – usually at least 20% greater – than the capital invested at the time by the fund.

To see the differences, consider a $500 million fund that makes an initial $10 million investment in a company that is sold several months later and realizes $110 million on the $10 million investment. Under the first calculation, the entire $110 million goes to the LPs. Under the second, $110 million would exceed $10 million by more than 20% s the PEP would be entitled to its share of the $100 million – $20 million with a 20% carried interest. The LPs would receive the difference – $90 million with a 20% carried interest.

The hurdle rate method of computing the carried interest is identical to the aggregation method except that the carried interest is not paid unless the fund has achieved a minimum rate of return – referred to as the hurdle rate or preferred rate. The hurdle rate is intended to align the interests of the general and limited partners by giving the general partner added incentive to outperform a traditional investment benchmark. Hurdle rates typically range from 5% to 10% and are often tied to a spread over Treasury Bill returns. They are much more common in buyout funds than in venture funds.

The PEP earns its 20% (or greater) carried interest on all the money invested in the fund. In general, the PEP contributes only 1% of the total capital in the fund.

It is also common for PEPs – particularly buyout funds – to earn transaction fees for providing investment banking services in putting together a transaction – an acquisition, IPO, etc. In the 1980s, the PEP typically retained transaction fees. Some of these fees turned out to be quite large – notably in some of the transactions funded by Kohlberg Kravis Roberts (KKR). In the 1990s, LPs have generally required that the PEPs share the transaction fees with the LPs with the most common split being 50-50. The transaction fees are typically applied as a reduction to management fees.

B. Covenants and other terms[4]

The typical agreement between fund investors and the PEP includes a number of covenants and other terms. Some of the more noteworthy are described in this section. See Lerner (1998) and Mercer (1997) for additional covenants and terms.

Direct co-investment occurs when the partners in a PEP or limited partners invest directly in companies that have received money from the fund. Crossover co-investment occurs when a PEP subsequently invests in companies that have already received money from a previous fund. Both types of co-investment by the PEP are generally restricted by the LPs.

The life of a partnership is typically ten years. Extensions of typically two or three years may be granted upon approval of the advisory board or a majority of the limited partners.

Limited partnership agreements usually provide that a general partner may be removed for “cause” if that is the preference of a majority or supermajority of the limited partners. The necessary vote for removal is typically in the 75% to 90% range.

In extreme circumstances, the LPs might invoke a no-fault divorce clause. This is the right to call for a vote of confidence at any time during the life of the partnership. The no-fault divorce clause stipulates the conditions where limited partners may stop contributing capital to the partnership or even terminate the partnership. A no-fault divorce clause typically states that if a specified majority (typically a super majority of those providing 75% or more of the committed capital) of the limited partners decide that they do not want to stay invested in the partnership, they can withhold additional capital take-downs.

The vesting schedule refers to the period of time from fund start-up date that partners of the PEP are eligible to receive their share of the carried interest. In practice, vesting percentages tend to be on average about 20% after one year; 35% after two years and 85% after five years. On average, partners are fully vested after about six years.

In the 1980s, it was common for funds to take down capital under a fixed schedule. Today, this is uncommon. Instead, LPs provide capital on a just-in-time basis in which the PEP provides advanced notice of 5 to 60 days before the capital call.

[4] Portions of this section are taken from Mercer (1997)

Exhibit 2 provides excerpts from a typical private placement memorandum for a private equity fund.

2. Accel Partners[5]

Accel Partners was one of the longer-lived venture capital partnerships. Accel raised its first fund in 1983 –with $64 million of capital committed – and was now raising its seventh. Exhibit 3 describes Accel's fund history. Exhibit 4 lists the investments in Accel V and Accel VI. Exhibit 5 describes the geographical and industry characteristics of the investments in Accel V and Accel VI.

A. Strategy

Accel based its strategy on three fundamental principles: focus, venture development, and a commitment to winning.

In order to bring greater understanding, experience and a "prepared mind" to Accel's portfolio companies, Accel focused exclusively on two sectors: communications and internet / intranet. By focusing, Accel believed it could contribute more deeply to the development of winning companies. They viewed this a comparative advantage over more generalist VC firms. Concentrating in selected sectors allowed Accel "to stay current with industry dynamics and to recognize at once the ramifications of an entrepreneur's idea, a critical skill for making prompt and informed investment decisions."

The partners believed their contributions extended well beyond financing and included strategic guidance, recruiting, business development and partnering. Accel's partners believed that relationships with the right strategic partners were critical to a new company's success. Accel believed its focused experience and network allowed it to contribute substantially to this dimension of its companies' development. Perhaps most importantly, Accel's focused approach allowed it to build rich networks of companies, corporate partners, and executive management candidates in each target sector. Accel believed that their companies' managements have benefited substantially from these networks, both in terms of access to industry leaders as well as relationships with a group of peers that help each other solve the continuing challenges of distribution, access to technology, recruiting, and corporate partnering.

Finally, Accel believed its relationship with the entrepreneur was built on a shared commitment to excellence and a common culture that had led to an unusually high proportion of successful ventures.

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[5] This section is based on public information and information from Accel's web site.

B. Partners

Accel argued that its team brought a deep base of experience to its target sectors. This experience included decades of both line management within leading technology companies as well as new venture development. Because of its focused strategy, Accel believed it was able to contribute more than just a talented individual to a new venture. Each of its portfolio companies could benefits from the leverage of a deep team of professionals knowledgeable and active in their industry, as well as an extensive network of highly relevant executives and companies built through Accel's previous venture development activity.

The partners included:

James Breyer, Managing Partner, was responsible for Accel's involvement in over twenty companies that have completed public offerings or successful mergers including Actuate, Agile Software, Arbor Software (now named Hyperion Solutions), Centillion (acquired by Bay Networks), Centrum (acquired by 3Com), Claremont, Collabra (acquired by Netscape), Corsair, Macromedia, Microprose, Mpath, Narrative Communications (acquired by @Home), RealNetworks, and RedBack Networks.

Bud Colligan co-founded Macromedia in 1992 through a merger of Authorware, Inc. and Macromind-Paracomp. At Macromedia, Colligan served as CEO and took the company public at the end of 1993. Before that, he headed Authorware, worked at Apple Computer's Macintosh Division from 1983 - 1985, where he assisted in the launch and development of the Macintosh personal computer, and from 1985 - 1988 headed Apple's higher education marketing and sales, which grew to more than a half-billion dollars in three years. He currently sits on the Boards of Directors of c|net, Brightmail, Food.com, S3, Schoolpop, SmartAge and SocialNet.

Jim Flach was formerly Chairman of Agile Networks, Netlink (Cabletron), Sentient Networks, Teleos Communications (Madge Networks), and Vivo Software. Currently, he is the acting CEO of Bandwidth9, Inc. He also serves on the board of CenterBeam, Freegate, GoDigital Telecommunications, Hybrid Networks (where he was formerly acting CEO), RedBack Networks (RBAK) (where he also served as CEO), and Vertical Networks. Previously, he was General Manager of the Personal Computer Enhancement Division at Intel. He came to Intel in 1989 when Intel acquired his communications company, Jupiter Technology, where he had been CEO since 1986. Prior to joining Intel, Jim held numerous business and technical positions during a seventeen-year career at Xerox Corporation.

Bruce Golden joined Accel in September of 1997. He led Accel's investments in Quokka Sports, Exchange.com (acquired by Amazon.com), Tioga Systems, Responsys.com, and Scriptics. He serves on the boards of HomeWarehouse.com, Moneyline Network, Responsys, Scriptics and Tioga Systems. In 1993, he joined Illustra Information Technologies, a database start-up, as one of the very early employees. As VP of Marketing, he helped to establish Illustra as the leader in an important new category for databases, known as object-relational database management systems. In 1996, Illustra merged with Informix Software. Prior to Illustra, he spent almost eight years at Sun Microsystems with particular focus on developing as yet untapped markets for Sun.

Mitch Kapor, Accel's newest partner, had been a leading figure in the computer industry for almost 20 years. He was the founder and CEO of Lotus Development Corporation and the designer of Lotus 1-2-3. He had been associated with Accel for the past five years, as a limited partner and through introducing the firm to UUNET and Real Networks. Companies he has been directly involved with include Avid, Mpath, PictureTel, Shiva, and Trellix. He is currently on the Board of Allaire Corporation, aQuery, Desktop.com, Groove Networks and Real Networks.

Arthur Patterson, a co-founder, had helped a number of companies become public including Actuate, Axent Technologies, Portal Software, SCO, Synercom, Trinsic, Unify, Veritas, VIASOFT, Walker Interactive, PageMart, and UUNET/MCI-WorldCom. Prior to co-founding Accel Partners, he was General Partner of Adler & Company. He started in venture capital at Citicorp Venture Capital, (CVC).

Joe Schoendorf had been active in the software and telecommunications industries for over thirty years. He participated as a Board member of industry pioneers such Authorware / Macromedia, and currently serves as Chaiman of Teloquent and Director of Elemental Software, Biztravel.com and Cybersafe. He was the Vice President of Marketing for Apple Computer from 1987 to 1988. In 1986 he became the Executive Vice President for Worldwide Sales and Marketing for Ungermann-Bass. Prior to that he was the CEO of Industrial Networking, a joint venture of Ungermann-Bass and General Electric. During an eighteen year career at Hewlett Packard beginning in 1966, he held numerous computer marketing and sales positions.

Jim Swartz, a founding partner, had been active in venture capital since the early 1970's. He has served as a Director for over thirty successful companies and has been closely involved as lead investor with the emergence of numerous industry pioneering firms including BroadBand Technologies, FVC.com, Illustra/Informix, Medical Care America, Netopia, PictureTel, Polycom, Remedy Corporation, and Ungermann-Bass. Current private company directorships include 2Wire, Avici Systems, CallNet, Cohera, FastForward Networks, InGenuity Systems, and MetraTech. Before founding Accel Partners, Jim was founding General Partner of Adler & Company, which he started with Fred Adler in 1978 after his tenure as a Vice President of Citicorp Venture Capital..

Peter Wagner had been a line manager and consultant in the computer and communications industries since the mid-1980's. He currently serves on the Board of Directors at 2nd Century Communications, AccessLan Communications, Alidian Networks, Bandwidth9, Gigabit Wireless, iBEAM Broadcasting, New Edge Networks, NorthPoint Communications, Omneon Video Networks, Tellium, and is responsible for Accel's investment in Arrowpoint Communications. Before joining Accel Partners, he was the Product Line Manager for the high-performance desktop workstation business at Silicon Graphics, Inc.

C. Track Record

As noted above, Accel had enjoyed a superior track record, particularly in Accel IV and V.

In communications, a few notable portfolio companies include PictureTel, Optilink (DSC) and Broadband Technologies in the WAN, Centillion and Alantec in the LAN, PageMart in wireless and UUNET - one of the first venture capital investments in the Internet. Accel's current interests include optical networking, voice-over-the-net, next generation access, high speed switching, broadband wireless and communications semiconductors.

In the Internet, Accel began its aggressive investment with UUNET, one of the venture community's first Internet investments, and continues to look for exceptional opportunities in Internet enabling technology like RealNetworks' streaming media. At the same time, Accel evolved its enterprise software activity, which included companies such as Remedy, Arbor, and Illustra, into a focus on the Enterprise Intranet. Additional areas of interest include vertical applications, electronic commerce, and security.

3. Accel Partners VII[6]

As mentioned above, Accel proposed to charge a management fee of 2.5% on committed capital and a carried interest of 30% for the expected $500 million Accel Partners VII. The management fee would decline to 1.5% in the seventh year of the fund. Accel would receive its carried interest on any distribution as long as the value of the Accel VII investments exceeded 125% of the invested capital. Other terms were standard.

Accel's proposed carry had generated a fair amount of attention among the private equity community. Some investors felt that top performers "should be rewarded" while "others worried that other PEPs would feel compelled to match Accel."

Julie wondered whether she could justify continuing to invest in Accel. By how much did Accel have to outperform the typical venture capital fund to justify the carry of 30% rather than 20% to the Angel Foundation? Was Accel that much better than the other venture capital funds Julie could invest in?

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[6] This section is based on "With Fund VII, Accel Partners Asking for 30 Percent Carry Fee," Private Equity Analyst, July, 1999.

Exhibit 1
Historical returns for venture capital funds by vintage year through March 31, 1999.

Vintage Year	Number Funds	Avg	Cap Wtd. Avg.	Pooled Avg	Max	Upper Quartile	Med	Lower Quartile	Min
1969-75	13	19.3	18.9	19.8	36.2	24.5	19.9	12.5	7.8
1976-79	18	30.2	29.9	28.4	74.1	45.7	29.3	12.4	6.0
1980	18	13.5	22.2	18.6	31.8	18.2	13.4	8.8	(1.9)
1981	22	7.1	10.1	9.9	25.4	13.6	9.1	(0.2)	(5.8)
1982	29	3.1	4.3	4.4	13.5	7.0	4.0	0.1	(19.1)
1983	58	5.0	6.7	8.0	41.5	10.8	5.8	1.6	(72.6)
1984	68	4.4	5.4	6.0	25.5	11.4	4.3	1.1	(32.6)
1985	47	7.1	8.6	9.7	28.3	14.9	7.9	1.6	(41.5)
1986	44	7.9	12.0	13.3	25.6	11.9	6.7	3.3	(0.9)
1987	66	7.8	12.9	14.1	41.3	17.0	7.8	0.6	(45.5)
1988	47	11.3	18.4	18.7	42.8	18.7	8.3	1.6	(9.4)
1989	56	12.0	17.5	18.9	56.0	21.7	8.1	0.7	(23.4)
1990	23	17.6	25.0	28.1	75.0	29.4	10.8	0.6	(8.5)
1991	16	16.1	20.5	21.0	61.8	26.3	17.2	0.6	(10.2)
1992	26	23.4	26.0	29.8	103.0	23.0	15.2	9.0	(2.3)
1993	40	20.5	27.1	32.6	85.9	31.5	12.3	3.3	(6.3)
1994	37	23.2	30.5	35.7	101.0	34.8	21.0	4.4	(19.8)
1995	36	30.6	33.0	40.4	251.0	44.4	19.0	7.2	(14.1)
1996	28	49.7	45.0	47.2	469.3	48.5	25.4	6.1	(25.9)
1997	46	24.8	22.4	34.9	173.8	47.7	13.8	(3.8)	(51.9)
1998	47	27.7	(5.8)	79.1	1350.8	1.1	(14.3)	(29.6)	(99.5)

Source: Venture Economics / NVCA

Exhibit 2
Excerpts from Private Placement Memorandum for Private Equity Fund

Minimum Investment: The minimum Commitment for a limited partner (collectively, "Limited Partners" and, together with the General Partner, "Partners") will be $20 million, although Commitments of lesser amounts may be accepted at the discretion of the General Partner.

Diversification and Investment Limits: The Fund may not invest more than 20% of aggregate Commitments in any single portfolio company, although Limited Partners may be required to contribute up to 25% of their respective Commitments for investments in any one portfolio company.

Commitment Period: All Partners will be released from any further obligation with respect to their unfunded Commitments on December 31 following the fifth anniversary of the initial closing ("Commitment Period"), except to the extent necessary to cover expenses and obligations of the Partnership (including management fees and investments in process) in an aggregate amount not to exceed unfunded Commitments.

Term: The term of the Partnership will expire on December 31 following the tenth anniversary of the initial closing, unless extended for up to two consecutive one-year periods at the discretion of the General Partner to permit orderly dissolution. No management fees will be charged during any such extension.

Capital Drawdowns: Limited Partners will contribute 99% of the Fund's capital. Commitments are expected to be drawn from Partners as needed, with not less than ten business days' prior written notice.

Distributions: Distributions in respect of any Partnership investment will be made in the following order of priority:

- (i) 99% to the Limited Partners and 1% to the General Partner until they receive their capital contributions in respect of such investment, plus a preference return equal to 8% (compounded annually).
- (ii) 99% to the Limited Partners and 1% to the General Partner until they receive their capital contributions in respect of all realized loss investments, plus a preference return equal to 8% (compounded annually).
- (iii) 99% to the Limited Partners and 1% to the General Partner until they receive their distributable cost contributions, if any.
- (iv) 80% to the General Partner and 20% to all Partners until the General Partner has received catch-up distributions equal to 20% of the sum of such distribution and the preference distributions in respect of such investment and all realized loss investments.
- (v) 80% to all Partners in proportion to their capital contributions in respect of such investment and 20% to the General Partner in respect of its carried interest.

For each investment (other than any bridge security) that is sold or disposed of, for a profit, the Partners' unreturned capital contributions in respect of such investment will include a proportionate allocation of all unreturned contributions for the participating Partners' management fees and other costs of the Partnership. The General Partner may use distributions to establish reasonable reserves for current or future Fund costs.

General Partner Clawback Obligation: Upon the liquidation of the Fund, the General Partner will be required to restore funds to the Partnership to the extent that it has received cumulative distributions in excess of amounts otherwise distributable to its pursuant to the distribution formula set forth above, applied on an aggregate basis covering all Partnership investments, but no event more than the cumulative distributions received by the General Partner solely in respect of its carried interest.

During the term of the clawback, the General Partner must retain a portion of its carried interest distributions (net of taxes and expenses) until a reserve of liquid assets in an amount equal to 120% of the clawback from time to time imputed had been achieved.

Management Fees: All Limited Partners will contribute capital to the Fund for the payment of the management fees and certain specified expenses of the Partnership. Until the expiration of the Commitment Period or the investment of 90% of Commitments, the annual contributions will equal 1.5% of each Limited Partner's Subscription Commitment, net of any reductions described below under "Transaction and Break-up Fees". Thereafter, the annual contribution will be reduced to 0.75% of each Limited Partner's invested capital, as from time to time outstanding. These contributions will be paid to the Fund in advance for specified periods no less than quarterly.

Transaction and Break-up Fees: An affiliate of the General Partner may charge transaction or similar fees, payable by a portfolio company, in connection with portfolio investments. In addition, an affiliate of the General Partner may receive break-up or similar fees or awards, if any, in connection with transactions not completed. Fifty percent of such transaction, break-up or similar payments will be used first to offset or reimburse Partnership expenses allocated to the Limited Partners and thereafter to reduce future management fee contributions for the Limited Partners.

Allocation of Expenses: The General Partner will bear all overhead expenses, such as salaries, rent and similar office expenses relating to personnel and facilities employed in connection with the Partnership's activities. Limited Partners will be allocated 99% of Partnership expenses, except that expenses for transactions not completed and for annual informational meetings of the Partners will be allocated 50%.

Transfers and Withdrawals: Limited Partners may not sell, encumber or transfer any interest in the Partnership except under certain specified circumstances and then only with the prior written consent of the General Partner. No Partner may withdraw from the Partnership if their participation become illegal under prescribed circumstances.

Cancellation of Capital Commitments to Make Portfolio Investments:
Cancellation by General Partner. The General Partner may cancel the obligation of all Partners to make Capital Contributions for Portfolio Investments if (i) the Partners' aggregate Capital Commitments are 75% invested in Portfolio Investments, or (ii) in good faith judgement of the General Partner, changes applicable law, regulation, case law, judicial or administrative order or decree or governmental license or permit, or any interpretation thereof by any governmental or regulatory authority or court of competent jurisdiction or if business conditions make such cancellation necessary or advisable in the interests of the Partners, provided that such cancellation must be approved by a majority in interest of the Limited Partners.

"No Fault" Cancellation. The General Partner shall cancel the obligation of Partners to make Capital Contributions for Portfolio Investments if the General Partner is notified at any time of the written election or vote of 75% in interest of the Limited Partners then entitled to vote in the Partnership to terminate the Commitment Period; provided that, in the case of any proposed Portfolio Investment in which the Partnership has entered into a legally binding agreement to invest prior to such notice, such termination shall not take effect until six months after the date of receipt of such notice by the General Partner.

Term of Partnership: The Partnership, unless earlier dissolved and terminated as provided below, shall continue in business through the close of business on the tenth anniversary of the later to occur of the initial closing date or the Effective Date, provided that if the General Partner deems it to be in the best interests of the Partnership, the General Partner may, with the consent of a majority in interest of the Limited Partners, extend the term of the Partnership for successive one-year periods up to a maximum of two years.

Dissolution and Termination Following Determination of Cause. The Partnership is subject to earlier dissolution and termination upon a determination by a majority in interest of the Limited Partners to dissolve the Partnership following a determination by the Limited Partners of Cause (as defined in "Transfer, Withdrawal or Removal of General Partner" below) with respect to the General Partner or Investment Advisor and a failure of the General Partner or the Investment Advisor to cure such Cause within the period of time specified under "Transfer, Withdrawal or Removal of General Partner" below.

"No Fault" Dissolution and Termination. After the expiration or termination of then Commitment Period, the Partnership is subject to dissolution and termination upon the vote 85% in interest of the Limited Partners to dissolve the Partnership for any reason (a "No Fault Dissolution Determination"). Following such a determination,

the General Partner will act as liquidator of the assets of the Partnership unless another liquidator is appointed by the vote of 85% in interest of the Limited Partners, which vote may not occur until at least 30 and not more than 60 days after the date of such No Fault Dissolution Determination.

Restricted: Without consent of a majority in interest of the Limited Partners the Partnership (i) may not invest more than 20% of its Capital Commitments in Portfolio Investments located outside of the United States and (ii) may not invest more than 20% of total Capital Commitments in Portfolio Investments issued by a single portfolio company and its affiliates; provided, however, that an additional 5% of such Capital Commitment may be invested in such Portfolio Investment in the form of Bridge Investments.

No more than 25% of the Capital Commitment of a Limited Partner may be invested in a single Portfolio Investment without such Limited Partner's consent; provided, however, that an additional 5% of such Capital Commitment may be invested in such Portfolio Investment in the form of Bridge Investments.

Restrictions on Raising Competing Funds and Investment Activities: Until the earlier of the expiration or termination of the Commitment Period or the time at which at least 75% of the Partnership's Capital Commitments have been invested in, or called for contribution for investment in, or committed for investment in, portfolio companies, the General Partner will not, directly or indirectly, sponsor, advise or manage any other limited partnership or pooled investment vehicle (a "Competing Fund").

General Partner's Co-Investment Rights: The General Partner may co-invest with the Partnership in each Portfolio Investment only on the same terms and conditions as the Partnership, including as to any guarantees by the Partnership (discussed under "Borrowing and Guarantees below), in an aggregate amount equal to the Co-Investment Percentage applicable for the fiscal year in which such Portfolio Investment is made.

Restrictions on Portfolio Investments Away from Partnership: Except as provided for above, the General Partner shall not invest outside of the Partnership in any privately negotiated equity investment that is substantially similar to the types of investments to be made by the Partnership until the earlier of the expiration or termination of the Commitment Period or Full Investment.

Transfer, Withdrawal or Removal of the General Partner: *Voluntary Transfer*. Without the consent of 66-2/3% in interest of the Limited Partners, the General Partner will not have the right to assign, pledge or otherwise transfer its interest as the general partner of the Partnership, and the General Partner will not have the right to withdraw from the Partnership.

Transferability of Interests: Only with the consent of the General Partner, which may be given or withheld in its sole and absolute discretion, may (i) a Limited Partner assign, sell, exchange or transfer all or part of its interest in the Partnership, or (ii) any assignee, purchaser or transferee of an interest be admitted as a substitute Limited Partner.

Exhibit 3
Accel Partners Funds

Name	Size ($Mil)	Stage	Vintage
Accel Capital L.P.	64.1	Seed	1983
Accel Capital L.P. (International)	28.2	Early	1984
Accel Telecom L.P.	40.1	Early	1985
Accel III L.P.	100.0	Early	1989
Accel IV L.P.	136.1	Balanced	1993
Accel V L.P.	150.1	Early	1996
Accel VI L.P.	275.0	Early	1998

Exhibit 4
Investments in Accel V and Accel VI

Accel VI L.P.

Name	Date	Amt ($Thous)	Stage
Integral Development Corporation	05/13/1998	7977.0	Expansion
Food.com, Inc.	05/19/1998	6475.0	Early Stage
Omneon Video Networks	05/22/1998	3256.0	Early Stage
Bright Light Technologies, Inc.	06/04/1998	2234.0	Early Stage
iBeam Broadcasting Corporation	06/08/1998	2401.0	Early Stage
Quokka Sports, Inc.	06/11/1998	4070.0	Expansion
Tioga Systems, Inc.	06/25/1998	2025.0	Early Stage
2nd Century Communications, Inc	07/14/1998	2930.0	Early Stage
HireSystems Inc.	07/23/1998	4070.0	Early Stage
Bandwidth Unlimited, Inc.	08/20/1998	2035.0	Early Stage
Food.com, Inc.	08/31/1998	1665.0	Early Stage
InGenuity Systems, Inc.	09/02/1998	407.0	Early Stage
SocialNet Inc	09/16/1998	2808.0	Expansion
Exchange.com	09/29/1998	543.0	Early Stage
CallNet Communications	10/05/1998	2442.0	Early Stage
2Wire, Inc.	11/13/1998	2646.0	Early Stage
Terabit Networks, Inc.	11/13/1998	2308.0	Early Stage
Responsys, Inc.	12/16/1998	2116.0	Early Stage
MetraTech Corporation	12/17/1998	1628.0	Early Stage
MovieStreet, Inc.	12/23/1998	3284.0	Early Stage
Quokka Sports, Inc.	12/23/1998	407.0	Expansion
Scriptics Corporation	12/29/1998	2849.0	Early Stage
Exchange.com	01/01/1999	1085.0	Early Stage
Arcot Systems, Inc.	01/22/1999	2442.0	Early Stage
Groove Networks	02/01/1999	4070.0	Early Stage
iBeam Broadcasting Corporation	02/03/1999	1588.0	Early Stage
Food.com, Inc.	02/12/1999		Expansion
FastForward Networks, Inc.	03/01/1999	2726.0	Early Stage
Gigabit Wireless	03/01/1999	1363.0	Early Stage
SmartAge Corporation	03/26/1999	4477.0	Expansion
Omneon Video Networks	06/30/1999	6000.0	Expansion

Exhibit 4 (cont.)
Accel V L.P.

Name	Date	Amt ($Thous)	Stage	Outcome
Portal Software Inc.	10/01/1995	2750.0	Early Stage	Public
GoDigital Telecommunications	03/01/1996	927.0	Early Stage	Private
Portal Software Inc.	03/22/1996	1820.0	Early Stage	Public
Trellix Corporation	04/01/1996	484.0	Early Stage	Private
Claremont Technology Group,	05/17/1996	2042.0	Later Stage	Public
AlphaBlox Corporation	05/24/1996	1370.0	Early Stage	Private
Sonnet Financial, Inc.	06/01/1996	1209.0	Expansion	Private
Freegate Corporation	06/17/1996	1854.0	Early Stage	Private
CyberSafe, Inc.	07/01/1996	2418.0	Expansion	Acquired
GMS Dental Group, Inc.	10/11/1996	1612.0	Early Stage	Acquired
Fabrik Communications, Inc.	10/24/1996	2579.0	Early Stage	Private
Cornerstone Physicians	11/20/1996	2837.0	Expansion	Private
Avici Systems, Inc.	11/22/1996	403.0	Early Stage	Private
i-Pass, Inc.	11/27/1996	816.0	Early Stage	Private
Narrative Communications, Inc.	12/06/1996	3224.0	Early Stage	Acquired
At Home Corporation	12/06/1996	3224.0	Expansion	Acquired
GoDigital Telecommunications	12/11/1996	927.0	Early Stage	Private
Bright Tiger Technologies, Inc.	01/17/1997	1814.0	Early Stage	Acquired
AccessLan Communications, Inc.	01/27/1997	182.0	Early Stage	Private
Technology Crossover Ventures II	01/30/1997	1945.0	Other	N.A.
Portal Software Inc.	01/31/1997	413.0	Early Stage	Public
ICAST Corporation	02/03/1997	250.0	Later Stage	Acquired
Agile Software Corporation	02/06/1997	1482.0	Expansion	Public
Abaton.com, Inc.	02/07/1997	4030.0	Early Stage	Private
AlphaBlox Corporation	02/14/1997	806.0	Early Stage	Private
Alignis, Inc.	03/05/1997	2821.0	Buyout/Acquisit	Private
Delos Womens Health, Inc.	04/04/1997	2418.0	Early Stage	Private
ICAST Corporation.	04/04/1997	1618.0	Early Stage	Acquired
FVC.COM	04/04/1997	1618.0	Early Stage	N.A.
Cloudscape, Inc.	04/16/1997	2216.0	Early Stage	Private
Agile Software Corporation	04/22/1997	206.0	Other	Public
Abaton.com, Inc.	04/25/1997	1290.0	Early Stage	Private
Tellium, Inc.	05/08/1997	1373.0	Early Stage	Private
Avici Systems, Inc.	05/14/1997	1834.0	Early Stage	Private
AccessLan Communications, Inc.	05/16/1997	2398.0	Early Stage	Private
Freegate Corporation	05/27/1997	1612.0	Early Stage	Private
Motive Communications, Inc.	06/06/1997	785.0	Early Stage	Private
i-Pass, Inc.	06/11/1997	816.0	Early Stage	Private
Hill Top Research, Inc.	06/30/1997	2355.0	Later Stage	N.A.
GoDigital Telecommunications	07/01/1997	1612.0	Expansion	Private
AlphaBlox Corporation	07/09/1997	940.0	Early Stage	Private
NorthPoint Communications, Inc.	08/13/1997	2748.0	Early Stage	Public
Trellix Corporation	08/14/1997	1612.0	Early Stage	Private
Foundry Networks, Inc.	08/22/1997	1570.0	Expansion	Public
Fabrik Communications, Inc.	09/27/1997	484.0	Early Stage	Private
Vertical Networks, Inc.	10/01/1997	2826.0	Early Stage	Private
Redback Networks, Inc.	10/01/1997	624.0	Expansion	Public
Cohera Corp	10/17/1997	1707.0	Early Stage	Private

Exhibit 4 (cont.)
Accel V L.P.

Name	Date	Amt ($Thous)	Stage	Outcome
Cogent Healthcare, Inc.	10/22/1997	552.0	Early Stage	Private
CyberSafe, Inc.	11/13/1997	806.0	Expansion	Acquired
Agile Software Corporation	11/14/1997	346.0	Expansion	Public
Bright Tiger Technologies, Inc.	11/16/1997	1007.0	Expansion	Acquired
For Health, Inc.	12/22/1997	1766.0	Early Stage	Private
i-Pass, Inc.	12/31/1997	1753.0	Early Stage	Private
Narrative Communications, Inc.	01/20/1998	293.0	Expansion	Acquired
At Home Corporation	01/20/1998	293.0	Later Stage	Acquired
Sonnet Financial, Inc.	01/22/1998	227.0	Expansion	Private
Portal Software Inc..	01/29/1998	3627.0	Expansion	Public
Broadbase Software	02/04/1998	3925.0	Expansion	Public
ICAST Corporation	02/04/1998	524.0	Later Stage	Acquired
ArrowPoint Communications, Inc.	02/06/1998	3925.0	Early Stage	Private
FVC.COM	02/24/1998	524.0	Later Stage	N.A.
U.S. Pathology Labs, Inc	03/03/1998	236.0	Early Stage	N.A.
AccessLan Communications, Inc.	03/09/1998	806.0	Early Stage	Private
Abaton.com, Inc.	03/12/1998	121.0	Later Stage	Private
Foundry Networks, Inc.	03/19/1998	1374.0	Expansion	Public
Avici Systems, Inc.	03/30/1998	1178.0	Early Stage	Private
Interwoven, Inc.	03/31/1998	1778.0	Expansion	Public
Cogent Healthcare, Inc.	03/31/1998	552.0	Expansion	Private
Freegate Corporation	03/31/1998	1007.0	Expansion	Private
Abaton.com, Inc.	04/01/1998	1612.0	Expansion	Private
CyberSafe, Inc.	04/01/1998	500.0	Later Stage	Acquired
GMS Dental	05/18/1998	2149.0	Later Stage	Acquired
Tellium, Inc.	05/20/1998	806.0	Expansion	Private
U.S. Pathology Labs, Inc.	05/22/1998	1021.0	Early Stage	N.A.
Avici Systems, Inc.	06/01/1998	500.0	Expansion	Private
Agile Software Corporation	06/04/1998	1209.0	Later Stage	Public
Cloudscape, Inc.	06/11/1998	1612.0	Early Stage	Private
Redback Networks, Inc.	07/02/1998	2598.0	Expansion	Public
Motive Communications, Inc.	07/15/1998	3357.0	Early Stage	Private
Cohera Corp	07/19/1998	274.0	Early Stage	Private
U.S. Pathology Labs, Inc.	08/13/1998	262.0	Early Stage	N.A.
CyberSafe, Inc.	08/17/1998	1455.0	Expansion	Acquired
Vertical Networks, Inc.	08/27/1998	962.0	Early Stage	Private
AlphaBlox Corporation	09/11/1998	1813.0	Expansion	Private
GoDigital Telecommunications	09/22/1998	806.0	Expansion	Private
ArrowPoint Communications, Inc.	09/30/1998	149.0	Early Stage	Private
Cogent Healthcare, Inc.	10/09/1998	1085.0	Expansion	Private
Vertical Networks, Inc.	10/26/1998	589.0	Early Stage	Private
Interwoven, Inc.	11/02/1998	786.0	Expansion	Public
Bright Tiger Technologies, Inc.	11/03/1998	470.0	Later Stage	Acquired
U.S. Pathology Labs, Inc.	11/20/1998	534.0	Early Stage	N.A.
Alignis, Inc.	12/31/1998	524.0	Later Stage	Private
For Health, Inc.	01/26/1999	785.0	Expansion	Private
CyberSafe, Inc.	02/05/1999	1048.0	Expansion	Acquired
ArrowPoint Communications, Inc.	02/16/1999	393.0	Expansion	Private
NorthPoint Communications, Inc.	02/19/1999	393.0	Buyout/Acquisit	Public
Fabrik Communications, Inc.	03/31/1999	246.0	Expansion	Private

Exhibit 5

Investment Description for Accel V and Accel VI

	Num Of Comp	Avg. per Comp	Sum Inv. $Mil	Pct. of Inv.
Accel VI				
Investment Total	25	3.5	87.4	100
State Breakdown				
California	20	3.7	73.1	83.6
Massachusetts	4	2.8	11.4	13.0
Industry Breakdown				
Computer Software	13	3.2	42.0	48.1
Communications	9	3.3	29.7	34.0
Biotechnology	1	0.4	0.4	0.5
Consumer Related	1	11.2	11.2	12.8
Services	1	4.1	4.1	4.7
Stage Breakdown				
Early Stage	21	2.8	58.6	67.0
Expansion	6	4.8	28.8	33.0
Later Stage				
Accel V				
Investment Total	41	3.4	140.2	100
State Breakdown				
California	27	3.3	88.8	63.4
Massachusetts	5	3.5	17.6	12.6
Texas	2	2.5	4.9	3.5
Washington	2	5	10	7.1
Industry Breakdown				
Computer Software	19	3.9	74	52.8
Communications	10	3.6	35.7	25.5
Medical/Health Related	9	2.6	23.1	16.5
Finance	2	1.7	3.4	2.4
Stage Breakdown				
Early Stage	28	2.7	76.1	54.3
Expansion	23	2	45.8	32.7
Later Stage	11	1	11	7.9

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