

Confidential Private Placement Memorandum



EGL Ventures IV, L.P.

\$100,000,000 of Limited Partnership Interests

This Confidential Private Placement Memorandum (the “Memorandum”) is confidential and proprietary to EGL Ventures IV, L.P., and is being provided to the Offeree, in confidence, on the understanding that the Offeree will observe and comply with the terms and conditions set forth herein. The Offeree’s acceptance and retention of this Memorandum shall constitute an agreement to be bound by such terms and conditions. If any of such terms are not acceptable, the Offeree should promptly return this Memorandum to the General Partner.

This Memorandum and the information contained herein are for the exclusive use of the Offeree and others involved in the Offeree’s investment decision for the sole purpose of evaluating the private placement described herein, may not be photocopied, reproduced, provided or disclosed to others, or used for any other purpose, and upon request must be returned to the General Partner.

EGL Ventures IV, L.P. (the “Partnership” or the “Fund”) is a Delaware limited partnership, organized for the purpose of making information technology, telecommunications, and healthcare investments in the Southeastern United States. EGL Ventures IV GP, LLC, a Delaware limited liability company, will serve as the sole general partner (the “General Partner”) of the Partnership.

In making an investment decision, investors must rely on their own examination of the person or entity creating the securities and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any Federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

Interests in the Fund have not been registered under the Securities Act of 1933, as amended (the “Act”), or the securities laws of any state or foreign jurisdiction. They are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the act, and the applicable state securities laws, pursuant to registration or exemption therefrom. Investors should be aware that they will be required to bear the financial risks of this investment for an indefinite period of time.

The interests are being offered only to persons whom the General Partner believes to be accredited investors under the Act. This Memorandum does not constitute an offer to sell or solicitation of an offer to buy interests in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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Private Placement Memorandum

❖ Table of Contents

Section I.	Executive Summary	1
Section II.	History & Environment.....	6
Section III.	The EGL Advantage.....	14
Section IV.	People	22
Section V.	Performance	31
Section VI.	Portfolio	34
Section VII.	Process.....	39
Section VIII.	Terms of the Offering	48
Appendix A.	Risk Factors	59
Appendix B.	Legal and Other Considerations	65
Appendix C.	Suitability Standards	69
Appendix D.	Methodology.....	71
	Additional Information	72

Prospective investors should read carefully this Memorandum and all supplemental disclosure materials delivered by the Fund before they make a commitment to purchase interests in the Fund. In particular, prospective investors' attention is drawn to the information under the headings "Risk Factors" and "Legal and Other Considerations." Prospective investors should also ask the Principals questions about the Fund and request any additional information regarding the Fund that they deem relevant or material before making an investment. Investors will be required to make representations about the matters described in this paragraph in their subscription agreement.

There will not be any public market for the Interests. The limited partnership agreement of the Fund places restrictions on the transfer of interests, and Federal and state securities and other laws also restrict transfers of interests.

Prospective investors should not construe the contents of this Memorandum as legal, investment, tax or other advice. Each prospective investor must rely upon its own representatives, including its own legal counsel and accountants, as to the legal, economic, tax and related aspects of the investment described herein.

Section I. Executive Summary

EGL is an established venture capital and private equity firm in Atlanta, with a strong track record dating back to 1988. Our principals have invested over \$100 million during that time. We plan to continue our successful strategy of investing in information technology, telecommunications, and healthcare companies in the Southeast United States. We believe that we offer an exceptional investment opportunity to institutional and individual investors, and we are seeking \$100 million in private capital commitments for EGL Ventures IV.

The fund will be managed by three industry veterans: Dr. David Ellis, Stephen Fleming, and Salvatore Massaro. David and Sal have worked together for fifteen years. Stephen has eight years of experience as a successful venture capital general partner, and joined EGL in the last year.

Southeastern Focus

EGL has been investing in the Southeast for fifteen years. We have built an enviable network of entrepreneurs, investors, and service providers, and are one of the most well-known and respected venture capital firms in the region.

The Southeastern United States had a \$1.5 *trillion* economy in 2001. If the region were ranked as a separate country, it would rank fifth in the world—behind the U.S., Japan, Germany, and the U.K., but ahead of France, China, Italy, Canada, Spain, Mexico, and India.

Low taxes, a low cost of living, and a wealth of human capital has enabled the Southeast to emerge as a leading region for high technology, high-growth companies.

The Southeast's technology leadership is anchored by the region's higher education system that includes fourteen of the nation's top fifty universities, four top-twenty MBA programs and four of the nation's top twenty engineering schools. This foundation has supported a track record of successful growth companies and technology-based startups dating back to the founding of Scientific-Atlanta in the late 1950s.

One of the resources available to these growth companies is the Southeast's pool of human capital. More Fortune 500 corporations are headquartered in the Southeast than anywhere outside of New York City; over 75% of the Fortune 1000 have operations in Atlanta alone. Experienced executives and managers can be recruited for all levels, from entry-level to CEO.

In addition, the Southeast attracts some of the nation's brightest scientists and engineers to its network of strong research universities and Federal installations.

All the pieces are in place to build attractive growth companies: technical innovation, experienced entrepreneurs, and all the required service industries—legal, banking, accounting, etc.

However, there is not enough local capital in the region to serve the number of prospects available. Money will follow opportunity, and out-of-region investors are pursuing deals in the Southeast. From 2001 to 2003, for example, over 70% of the investors in venture-backed companies came from outside the region.

The EGL Advantage

All three of us have substantial operational experience, including senior management “CXO” roles in technology businesses and leadership roles in some of the world’s largest corporations.

We plan to stick with our strengths—technology-oriented growth companies that have a unique or proprietary advantage. Specifically, we intend to maintain our focus on information technology, telecommunications, and healthcare. We believe we are able to identify, nurture, and harvest strong technology companies with superior management that can lead to excellent returns for our limited partners.

❖ Geographical Focus

Of our 31 investments since 1988, 27 have been in the Southeast; of the remaining four, two were in adjacent regions (one in Texas, and one in the Mid-Atlantic). Few other venture firms in the Southeast can point to an equivalent record.

We believe that our experience and our network in the region will continue to ensure our access to the most attractive deals at all stages of growth—often before out-of-region investors are aware of the opportunity. When distant investors are interested but need a “local lead,” we have a track record of being an excellent syndicate partner.

❖ Balanced Fund

We believe that, in our geographical market, there is a mix of early- and later-stage investment prospects, and that the investment strategy of EGL-IV must reflect this mix of opportunities. We plan to invest in both early- and later-stage equity financings of growth companies, as diversifying our investments across different stages of development makes sound financial sense. Early-stage investing maximizes our return potential by purchasing equity in young companies at low valuations. Later-stage investing helps reduce risk in our portfolio and enable us to accelerate liquidity events to our investors. In all cases, we will continue to emphasize investments where our principals can add substantial value.

❖ A Record of Leadership

In two-thirds of the investments made in our previous funds, we were the first institutional investor. In over 80% of our investments, we have had one or more board seats in the portfolio company. In the last fifteen years, we have syndicated investments with leading venture and corporate investors across the U.S.

We have used our close ties to two of the largest private equity funds in Europe, as well as direct relationships with many senior executives across Europe, to help our companies achieve their international goals.

People

EGL Ventures IV will be managed by three individuals (the “Principals”): Dr. David Ellis, Stephen Fleming, and Salvatore Massaro.

❖ Dr. David Ellis

Dr. David Ellis has over 27 years of investment experience, as well as substantial operations experience at the CXO level. He received his BS in Chemistry and his PhD in Biophysics from St. Andrews University in Scotland, and attended the Senior Executive Program at the Sloan School of MIT. As a managing director at 3i, he had oversight of over 100 private equity investments. He has made 13 investments as a founder and managing director of EGL.

❖ Stephen Fleming

Stephen Fleming has over 9 years of private equity experience at the general partner level, and has led 18 technology investments. Prior to his investment career, he spent 15 years in operations roles at AT&T Bell Laboratories, Nortel Networks, and LICOM (a venture-funded startup). An Atlanta native and *summa cum laude* graduate of Georgia Institute of Technology, he maintains strong ties to the campus. He has endowed a professorship in telecommunications at Georgia Tech, and periodically teaches a semester in entrepreneurship to second-year MBA students.

❖ Salvatore Massaro

Sal Massaro has over twenty years of investment experience, and has made 13 investments during his fifteen-year tenure at EGL. He received a BS in Business Administration, *magna cum laude*, from Georgetown University, and his MBA from the Harvard Business School. His career includes roles at Prudential-Bache, Price Waterhouse, and as CFO of a public telecommunications company. He is a former member of the Board of Governors of NASBIC.

❖ Additional Management

The team will be augmented by two senior associates after the initial closing of the fund. We have identified two lead candidates, whom we know well, with relevant venture capital, investment banking, and private equity experience.

❖ Advisory Committee

The voting members of EGL's Advisory Committee will represent the limited partners. In addition, we have chosen non-voting Advisory Committee members for their ability to assist EGL, and the CEOs of our portfolio companies, with their technical expertise, business contacts, and strategic insight. These individuals include former portfolio CEOs, scientists, academics, investors, and industry leaders.

Performance

The Principals of EGL Ventures IV have demonstrated excellent investment performance over the last 15 years. We have invested \$107 million in 31 companies. On a *pro forma* combined basis, those investments returned \$184 million (1.7×) as of December 31, 2003. That corresponds to a *pro forma* combined gross internal rate of return of 30.1%. *Pro forma* combined net returns (net of management fees and carried interest) are 1.5× and an IRR of 23.5%.

Those calculations make assumptions about the market value of six unrealized investments that the Principals believe are relevant. On a fully-realized basis only, the investments have returned \$171 million of cash and freely-tradeable securities. The *pro forma* combined gross realized multiple is 1.6×, and the *pro forma* combined IRR is 29.4%. *Pro forma* combined net realized returns are 1.4× and a 22.5% IRR.

We have experienced success with trade sales—mergers or acquisitions by larger companies—negotiated by EGL's Principals. At the same time, we have been involved in four initial public offerings and two secondary offerings. We do not try to time the markets with public securities, whether after an IPO or after a stock transaction with a public company. Once a stock is freely tradeable and sufficiently liquid to withstand the appearance of our shares on the public market, we will distribute those shares to our limited partners.

Summary of Terms

A brief overview of the terms of this offering is below. More detailed information is provided in Section VIII of this document.

<i>Offering</i>	\$100 million in limited partnership interests.
<i>Term</i>	10 years, plus three optional one-year extensions.
<i>Minimum Commitment</i>	\$500,000 for individuals; \$3,000,000 for institutions.
<i>Advisory Committee</i>	Selected by the general partner, except any subscriber for \$10 million or more may appoint one voting member.
<i>Carried Interest</i>	80% to limited partners and 20% to the general partner (after return of capital).
<i>Clawback</i>	Standard.
<i>Management Fee</i>	2.5% for the first five years, declining by 10% per year thereafter.
<i>ERISA</i>	Intended to qualify as a venture capital operating company.

Section II. History & Environment

EGL is an established venture capital and private equity firm in Atlanta, with a strong track record dating back to 1988. Historically, EGL's financial backing has come from leading institutions in the United Kingdom. With EGL Ventures IV, we are widening our circle of investors to include U.S. institutions as well as a limited number of high-net-worth individuals.

Fund Objectives

We plan to continue our successful strategy of investing in information technology, telecommunications, and healthcare companies in the Southeast United States. Each portfolio company is typically characterized by high-growth potential, a strong management team, a large addressable market, and a unique or proprietary product, service and/or process.

We are seeking \$100 million in private capital commitments for EGL Ventures IV. The Principals will contribute an amount equal to 1% of the aggregate capital managed by the fund, provided equally by the three of us.

Fund History

Principals David Ellis and Sal Massaro launched EGL's private equity business in 1988 when they entered into an agreement to source and manage investments in the U.S. for Mercury Asset Management plc ("MAM"), a London-based asset management firm with over \$150 billion under management. We refer to this dedicated fund as EGL-I. Subsequent to the agreement with MAM, EGL formed a relationship with the private equity group of The National Westminster Bank ("NatWest") to co-invest in U.S. investments sourced through EGL's activities on behalf of MAM. EGL formed a separate investment vehicle for NatWest and secured an unleveraged SBIC (Small Business Investment Company) license for this entity in 1997. We refer to the independent investment activity on behalf of NatWest as EGL-II.

In the late 90's, MAM and NatWest were acquired by Merrill Lynch and the Royal Bank of Scotland, respectively, and renamed HgCapital and Bridgepoint Capital. As a result of the track record of successful investments and favorable returns generated during their historical relationship, MAM and NatWest agreed to continue their support of EGL, in spite of the disruption. In 1999, David and Sal formed their first independent fund, EGL-III, with approximately \$20 million in committed capital. MAM and NatWest committed over \$10 million to EGL-III.

After their respective acquisitions, HgCapital and Bridgepoint Capital were required to focus their investment activity solely on Europe, excluding them from investing in

EGL-IV. However, the CEOs of both HgCapital and Bridgepoint Capital have committed to invest as individuals in EGL-IV.

Fund Management

EGL Ventures IV will be managed by three Principals: Dr. David Ellis, Stephen Fleming, and Salvatore Massaro. As detailed above, two of us—David and Sal—have worked together for fifteen years. Our third partner—Stephen—joined in the last year as we began to organize EGL-IV.

Stephen has a strong track record of success in Southeastern venture capital. As a general partner at Alliance Technology Ventures for eight years, he managed eighteen investments, fourteen as the lead or co-lead of a syndicate. All of these investments were consistent with the investment goals of EGL-IV—technology-focused, with a balance of early- and late-stage, and predominantly in the Southeast.

Stephen's previous firm, Alliance Technology Ventures ("ATV"), raised three funds totaling \$260 million; Stephen joined near the inception of ATV-I, and played a pivotal role in raising ATV-II and ATV-III. Those funds focused on a mixture of telecommunications, information, and life sciences (with an emphasis on human biopharmaceuticals). Early in 2002, Stephen decided to leave the firm as ATV focused more on national biopharma targets, and he has no further GP or board-level involvement with ATV.

David, Sal, and Stephen have been friends for many years. David and Sal realized that Stephen's investment history, technical background, extensive Southeastern network, and experience of managing ERISA-compliant funds would be a substantive addition to EGL's history, track record, and SBIC experience. As a result, they invited Stephen to join them in the formation of EGL-IV.



Note that we use the MoneyTree definition of the Southeast throughout this document:

- North Carolina,
- South Carolina,
- Georgia,
- Florida,
- Alabama,
- Mississippi, and
- Tennessee.

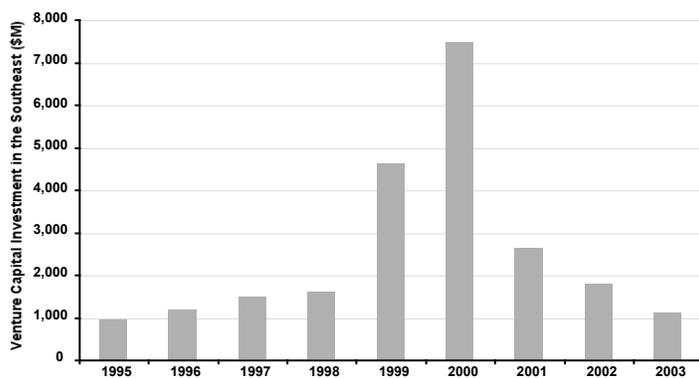
Investment Opportunity

We believe that EGL-IV represents an exceptional investment opportunity for institutional and individual investors.

The last few years have been difficult for private equity in general, and for venture capital in particular. Venture investments nationwide are down over 80% from their peak in 1999 and 2000; the Southeast has not been immune.

This is an excellent time for the survivors—including EGL—to put new money to work in exceptional deals at attractive prices.

Venture Capital Investment in the Southeast



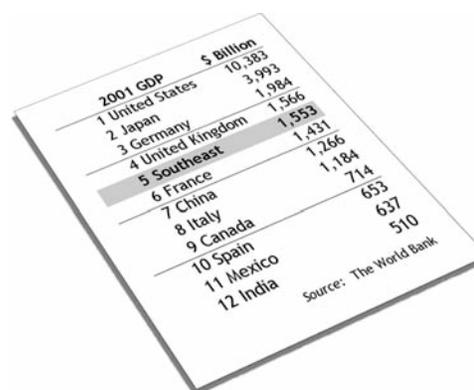
Source:
 PriceWaterhouseCoopers/
 Thomson Venture
 Economics/
 National Venture Capital
 Association MoneyTree
 Survey

Since 1995, over \$22 billion has been invested in venture capital deals in the Southeast. The region has traditionally attracted significant venture investment in four sectors: telecommunications, information technology, healthcare/life sciences, and media/entertainment. EGL-IV will focus on the first three of these sectors.

❖ **Southeastern Opportunity**

The entire Sunbelt is booming, and the seven states of the Southeast are leading the way. According to U.S. Census figures, the Southeast had a population in 2000 of 49 million people—approximately one-sixth of the national total. But, since 1990, that figure grew 20%, compared to only 12% for the rest of the country. In 2004, the Forbes list of best metro areas to launch a business included three Southeastern cities in the top ten; Atlanta ranks #1 on the *Inc. Magazine* 2004 list of top cities.

Economically, the figures are surprising. The economies of the seven Southeastern states totaled over \$1.5 trillion in 2001. (Source: Dept. of Commerce.) If the region were ranked as a separate country, it would rank fifth in the world—behind the U.S., Japan, Germany, and the U.K., but ahead of France, China, Italy, Canada, Spain, Mexico, and India. (Source: World Bank.)



◆ **Historical Successes**

The Southeast has a track record of building successful growth companies and technology-based startups dating back to the founding of Scientific-Atlanta in the late 1950s. A partial list since 1980 would include:

- | | | |
|----------------------------|---------------------------|--------------------------|
| ADS NetTools | Internet Security Systems | Qtera |
| American Software | Lancope | Radiant Systems |
| Arris | Manhattan Associates | Red Hat |
| Atherogenics | Mapics | Red Storm Entertainment |
| CareCentric | McKesson HBOC | RF Micro Devices |
| CBS Sportline | Mindspring / Earthlink | RF Solutions / Anadigics |
| Certergy | Movaz | S1 Corporation |
| Checkfree | MSA | SAS Institute |
| Checkmate Electronics | Netbank | Scientific-Atlanta |
| ChoicePoint | Optio | SecureWorks |
| CipherTrust | Orbital Sciences Corp. | Serologicals |
| Citrix | Paradyne | Synchrologic / Pumatech |
| Cree | Pathfire | Syntellect |
| DCA | Patient Care Technologies | Techsphere Systems |
| Digital Furnace / Broadcom | Peachtree Software | Tradex / Ariba |
| EMS Technologies | Per-Se Technologies | Turner Broadcasting |
| FirstWave | Powertel / T-Mobile | ValuBond |

FlexLight	Premiere Technology	Verifiber
Global Payments	Princeton Technologies	WebMD
Hayes Microsystems	Quadram	WebMethods
Inhibitex	Quintiles	ZSoft / The Learning Co.

Some of these companies have become household names, some have grown to dominate their market niches, and others have merged or been acquired by larger companies. In all cases, they demonstrate that successful startup companies can be created in the Southeast.

◆ *Human Capital*

One of the resources available to these growth companies is the Southeast's pool of human capital. Experienced executives and managers can be recruited for all levels, from entry-level to CEO. More Fortune 500 corporations are headquartered in the Southeast than anywhere outside of New York City; over 75% of the Fortune 1000 have operations in Atlanta alone. Familiar names that are either based in the Southeast or that have very substantial operations here include:

AFLAC	Gaylord Entertainment	Nortel
AirTran	Georgia-Pacific	Northrop Grumman
Alcatel	Gulfstream Aerospace	Qualcomm
AT&T	Harris Corporation	Ray-O-Vac
AT&T Wireless	HCA	R.J. Reynolds
BellSouth	HealthSouth	Saks Fifth Avenue
Cingular	Hewlett-Packard	Scana
Circuit City	Home Depot	Siemens
Cisco	Humana	Solectron
Coca-Cola	IBM	SonyEricsson
Cox Enterprises	Intergraph	Southern Company
Dell	Krispy Kreme	Southwire
Delta Air Lines	Lexmark	Sprint
Duke Energy	Lucent	Synovus
Eastman Chemical	MCI	TimeWarner
EDS	Microsoft	T-Mobile
Equifax	Motorola	Total Systems
Ericsson	NASCAR	UPS
Ethyl Corporation	National Data Corp.	Verisign
Federal Express	Newell Rubbermaid	Verizon Wireless
Federated Systems	Nextel	Wal-Mart
Gannett	Nokia	Worldspan

Our enviable quality of life in the Southeast ensures that, once these companies relocate managers to our region, they rarely want to leave. They form a pool of talent and experience that can be invaluable to a small company experiencing rapid growth.

◆ *Intellectual Capital*

Finally, the Southeast attracts some of the nation’s brightest scientists and engineers to its network of strong research centers, such as the Georgia Institute of Technology and the new \$500 million Scripps Research Institute in Palm Beach, Florida. The region also hosts major Federal centers of innovation such as:

- Oak Ridge National Laboratory (Tennessee),
- Marshall Space Flight Center (Alabama),
- Kennedy Space Center (Florida),
- the Environmental Protection Agency (North Carolina),
- the Centers for Disease Control and Prevention (Atlanta),
- the newly-designated Savannah River National Laboratory (Georgia), and
- multiple military technology centers.

◆ *Example: Oak Ridge National Laboratory*

As an example of the intellectual capital available in the Southeast, the Oak Ridge National Laboratory is located 200 miles north of Atlanta in East Tennessee. ORNL is the Energy Department’s largest multiprogram science laboratory, with a \$1 billion annual budget and nearly 7,000 employees and guest researchers. The National Leadership Computing Facility has been funded for the task of building the world’s largest supercomputer in Oak Ridge. The \$1.4 billion Spallation Neutron Source is the country’s largest civilian science project.

Unlike some of the weapons-focused laboratories (Sandia, Lawrence Livermore, etc.), Oak Ridge is focusing its research efforts on three areas: “info” (ultrascale computing and simulation), “nano” (nanoscale science and technology), and “bio” (complex biological systems). The intersection of info, nano, and biotechnologies matches well with EGL’s investment focus. ORNL has instituted an aggressive licensing and partnering program, and is working with venture firms nationwide to stay at the forefront of national technology trends. In the late 1980’s, the EGL principals advised several successful ORNL spinouts on strategic exit alternatives; those relationships remain active.

Oak Ridge represents just one of the relatively-untapped technology centers in the Southeast. As a leading firm in the region, EGL has been invited to examine opportunities to commercialize interesting technology developments at these centers.

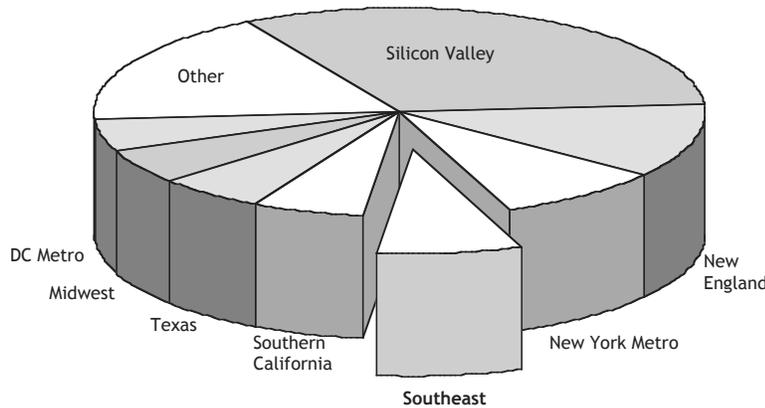
◆ *Opportunity Summary*

Universities and research institutions in the area will keep EGL’s target sectors strong (information technology, telecommunications, and life sciences). All the pieces are in place to build attractive growth companies: technical innovation, experienced entrepreneurs, and all the required service industries—legal, banking, accounting, etc.

We expect that venture capital will continue flowing to the region; EGL Ventures IV will be able to lead some of the most attractive investments.

❖ Regional Undercapitalization

Historically, the Southeast has attracted approximately 8% of U.S. venture investment—far behind Silicon Valley, slightly behind New England and the New York area, but ahead of Southern California, Texas, the Midwest, and the DC Metroplex... and still growing.

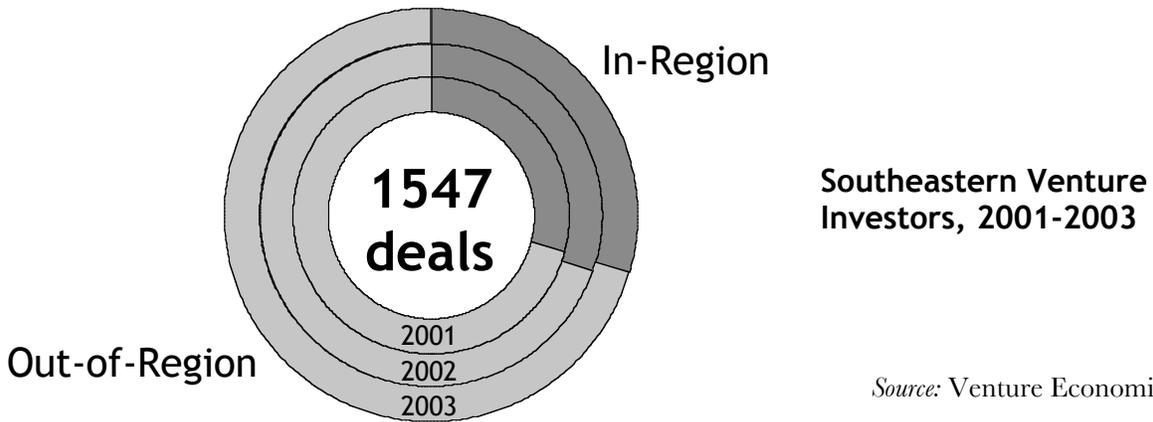


U.S. Venture Investment, 1995-2003

Source: MoneyTree Survey

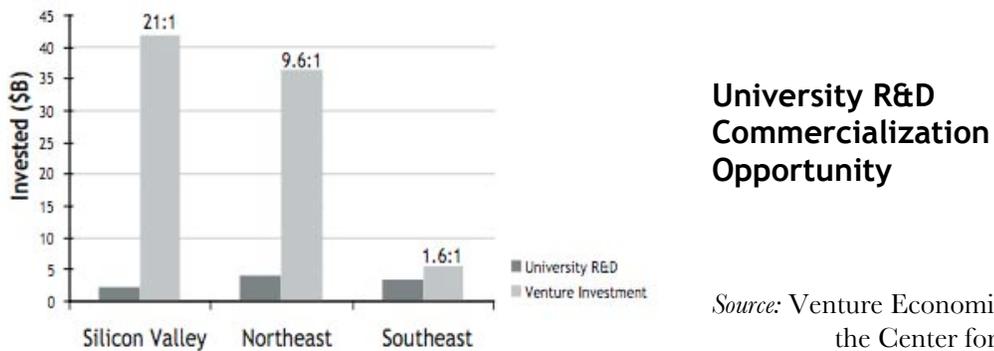
But local capital tells a different story. Only 2.4% of U.S. venture capital is headquartered in the region. This ratio has remained relatively constant since 1995. Simply stated, there is not enough local capital in the region to serve the number of prospects available.

Clearly, most of the dollars being invested in the Southeast are coming from out of the region. Money will follow opportunity, and out-of-region investors are pursuing deals in the Southeast. From 2001 to 2003, for example, out of over 1500 transactions, over 70% of the investors in venture-backed companies came from outside the region.



This is a strong endorsement of the business opportunities available in the Southeast. At the same time, it highlights the opportunities available to local venture capital firms—in most cases, companies would prefer to have local investors, especially in the earliest stages of development.

Another interesting metric is the ratio of venture investment to university R&D investment. The Southeast actually has more university R&D activity than Silicon Valley, and an amount that is comparable to the Northeast:



Each dollar of university R&D in Silicon Valley attracts \$21 of venture investment. In the Northeast, each dollar attracts over \$9.00. But, in the Southeast, each dollar of university R&D attracts only \$1.60 of venture investment. **This disparity represents a significant opportunity for EGL Ventures.**

Section III. The EGL Advantage

The three Principals of EGL have been successful investors in the Southeast for many years. We believe that EGL Ventures IV, based on our proven principles, will be an immediate leader in the regional venture capital environment—and an excellent investment for our limited partners.

Operational Experience

All three of us have substantial operational experience, including senior management “CXO” roles in technology businesses. This experience gives us a strong advantage in dealing with entrepreneurs—they sense that our shared background gives us insight into their situation and their challenges. When a CEO is choosing between competing syndicates, our operational backgrounds have frequently tipped the scales in our favor.

At the same time, our background makes us better board members and better stewards of a corporation’s resources. We understand the process of growing a young company—and we recognize the major danger signals. Company management can frequently be distracted by day-to-day tasks; as operationally-experienced board members, we can frequently help them focus on key strategic issues before the company encounters difficulties.

But we have not only worked at startups and growth companies—we have been successful in some of the world’s largest corporations. Fleming directly supervised Nortel’s partnerships with several smaller entrepreneurial companies, including the development of the industry’s first DSL modems. Ellis negotiated the joint venture between Airco Inc. and Oxford Instruments plc (“Oxford”) that commercialized Magnetic Resonance Imaging (“MRI”) technology, now widely deployed in the healthcare and instrumentation sectors. David and Sal Massaro also arranged the joint venture between Oxford and Lucky Goldstar to develop the Korean MRI market, and assisted International Computers Ltd. with the spinout of their parallel processing computing technology. Our history gives us unusual insight into the complexities of building successful relationships between very different organizations. This experience serves us well with our portfolio companies as they navigate partnerships, strategic investments, and eventual trade sales to larger corporations.

Technology Focus

We plan to stick with our strengths—technology-oriented growth companies that have a unique or proprietary advantage. Through our investment activities and our significant operational experience, we believe we can identify, nurture, and harvest strong technology companies with superior management that can lead to excellent returns for our limited partners.

❖ Information Technology

The information technology industry is one of the largest and most rapidly growing sectors of the global economy. Driving approximately 30% of GDP, information technology has woven itself into the fabric of commercial enterprises and millions of homes. Over a quarter of a century ago, Intel co-founder Gordon Moore observed that the number of transistors on a given piece of silicon would double every eighteen months—a profound insight that was dubbed “Moore’s Law.” That law has driven down the cost of digital electronics by orders of magnitude, so that kitchen appliances today have more processing power than the Apollo lunar lander. This precipitous drop in the cost of digital electronics, coupled with dramatic software innovation, has powered the information technology revolution.

Information technology investments, such as software, systems, and security, have long been key components of the venture capital universe, and we see no reason for this to change. Major trends (open source, outsourcing, offshoring) are changing the way the industry operates, but not the core value proposition: delivering the benefits of Moore’s Law to businesses and consumers around the world.

Entire industries are being forced to adapt or die. With remote access technology, sales and customer support personnel can now spend more time in the field. Individuals are telecommuting. Companies are harnessing the power of the Internet, and technology-enabled interactivity is changing virtually every company’s relationships with suppliers, partners, and customers. All forms of media—audio, video, and print—are rapidly being digitized. The past decade has seen the broad acceptance of a new style of visual computing, and has created a rich new medium for communications, including electronic media, financial services, retailing, and research.

We believe that there are attractive emerging companies addressing various segments of the vast information technology space. In particular, we plan to consider innovations in grid computing, wireless applications, on-demand delivery of enterprise applications, and information security (including encryption, authentication, privacy, and rights management).

The Southeast has long been a leader in information technology, dating back to the 1970s. The EGL principals have made 19 information technology investments over the last 15 years, and we believe we have the contacts, the expertise, and the focus to continue developing strong companies in this sector.

❖ Telecommunications

Telecommunications investments have been through an unprecedented boom and bust. In the year 2000, at the height of the Bubble, venture capital firms invested over \$18 billion in telecommunications companies. In 2003, that number was down nearly 90%, to barely \$2 billion.

Given that background, it is natural that many venture funds have abandoned telecommunications investments. We believe that is an overreaction.

Fundamentally, telecommunications in all its aspects (Internet, wireless, satellite, etc.) remains a vital sector of the U.S. and global economy. During the late 1990s, significant advances in technology were implemented across the board—sometimes before they were economically justified. Many were based on the same revolutionary idea: that intelligence can be distributed throughout the network instead of being centralized in old-technology mainframes, datacenters, and central offices. This shift promises to extend the cost reductions of Moore’s Law from computing to communications.

Revolutions are messy, and revolutionaries lead a risky life. Since the market peak in early 2000, hundreds of billions of dollars of market capitalization have evaporated. In most cases, companies had promised more than they could deliver... extrapolating spectacular technological advances to promise equal advances in implementation. All segments—wireless, cable, CLEC, and of course, the dot-coms—were dazzled by possibility, and blind to the challenges of real-world product rollouts.

The remainder of this decade will be focused on making things work—implementing cost-effective new networks and network technologies, with business plans that make sense, often based on innovations that received rave reviews during the period of “irrational exuberance.” Most telecom successes in the near future will be incremental, not revolutionary.

Some of these evolutionary opportunities will be attractive venture investments. In particular, we expect to focus EGL’s investments on innovations in access technologies (including wireless), end-user mobility and location-based services, infrastructure efficiency, network security, and the shift from circuit-based to packet-based voice (VOIP).

Although equities in this sector were terribly overvalued at the height of the market, there are still good equity investments to be made. Careful deal selection, fair valuation, and close attention to execution will still combine to deliver venture-quality returns. Given our industry knowledge and extensive experience in telecommunications, we expect this sector to be a core component of EGL’s investment portfolio.

❖ Healthcare Products & Services

Healthcare is the largest industry sector in the U.S. economy, and is projected to grow significantly faster than the GDP for the foreseeable future. This growth is fueled by the continued aging of the U.S. population and the desire for improved quality of care. Despite this growth, healthcare companies have seen a period of volatility due to changes in government and market regulations. This environment will continue to create opportunities for innovative companies that provide products and services that reduce costs, improve quality and outcomes, and enhance patient satisfaction and convenience. We believe that significant opportunities remain in healthcare products and services for a focused and disciplined investment team.

Our focus in this sector is on medical device, diagnostic, and data-manipulation companies. We also see continuing opportunities in healthcare information systems, which can leverage the benefits of Moore's Law into the historically laggard medical environment. These investment opportunities do not require complex regulatory approvals and do not suffer under unreasonably long lead times to market.

Although we will not invest directly in drug development, we are particularly interested in companies developing Internet software that can streamline the flow of information in drug discovery and clinical development. The convergence of information technology and life sciences will also produce new investment opportunities in telemedicine, assistive robotics, and medical imaging.

According to a new study from the Milken Institute, only a handful of metropolitan areas have succeeded on a scale necessary to ensure a sustainable biotechnology industry. The Raleigh-Durham-Chapel Hill metro area ranks as one of the top three biotech centers in the nation; we have good relationships in the Research Triangle, and expect to continue seeing a stream of healthcare product and service deals from this area. Georgia is determined to not be left behind; universities in the Atlanta region conduct over \$1 billion/year of life science research. Recent expansions of world-class faculty and facilities at Georgia Tech and Emory University (both of which have good relationships with EGL) should be fertile ground for us. And the state of Florida is investing over \$500 million to build a new campus for Scripps Research Institute, which is expected to attract thousands of biomedical researchers.

We have experience with life science technologies, including current advisory board experience, and are confident that we can nurture successful investments while respecting our capital and timing requirements. Since healthcare information technology, medical products, and healthcare service opportunities tend to be counter-cyclical to the information technology and telecommunications sectors, we are seeing a number of attractive prospects in this area today.

❖ Emerging Sectors

Although it is our intention to concentrate on the sectors listed above, technology continues to move quickly, and it is possible that new sectors will present attractive investment opportunities during the investment period of EGL-IV. In particular, the Nanotechnology Research Center at Georgia Tech has attracted over \$80 million in public and private investments in the last year; we hope to see commercialization potential over the next few years.

Geographical Focus

As detailed above, the Southeastern U.S. is an excellent market for venture investment—and one that remains under-served by venture capital firms. EGL's Principals have been investing here for a long time, and we have built an enviable network of entrepreneurs, investors, and service providers.

Of our 31 investments since 1988, 27 have been in the Southeast; of the remaining four, two were in adjacent regions (one in Texas, and one in the Mid-Atlantic).

We have also worked with many of the major universities, business incubators, and angel investors in the Southeast. Once a deal is ready for professional venture investment, EGL is typically on the short list of firms contacted to take the opportunity to the next level.

We believe that our experience and our network in the region will ensure our access to the most attractive deals at all stages of growth—often before out-of-region investors are aware of the opportunity. When distant investors are interested but need a “local lead,” we have a track record (detailed below) of being an excellent syndicate partner.

❖ Local Lead

Geographical proximity is important in the ongoing management of portfolio investments. In growth companies, especially in the earlier stages, board members are often called on to give advice or counsel on a moment's notice—and face-to-face discussions are always best. That can be very difficult when the board member lives three time zones away.

Historically, a local lead has been a critical element of venture capital investing. At EGL, we believe that at least one syndicate partner needs to be able to build informal relationships across multiple layers of management at our portfolio companies, helping to spot potential problems before they escalate. Some of the largest funds in the U.S. have abandoned this practice, sending junior members of fund management on frequent trips across the country. Smaller venture funds, however, including some of the smartest sector specialists, are philosophically opposed to and can't afford this practice and therefore won't invest without a local lead.

We expect to continue our historical practice of leading deals in the Southeast, with possible extension into adjacent states. A certain number of investments may be made out of the region as part of our strong syndicate relationships.

It is worth noting that, now that the venture industry has returned to historical norms, many Southeastern venture firms have refocused their efforts or left the business entirely. We believe that EGL-IV, with more capital available for growth companies, will be able to fill the vacuum as one of the premiere venture capital firms in the region.

Balanced Fund

During the run-up of technology valuations, strong funds with experienced leadership concentrated almost exclusively on early-stage investments. As a result, when the technology market crashed, those funds were left with a portfolio of companies that were too heavily weighted in the early stage. As those companies matured, the ensuing competition for capital meant that many promising young companies were unable to develop to profitability and liquidity. By contrast, later-stage funds were nevertheless able to nurture their stronger, more-established companies through the downturn, in many cases managing to achieve an exit and recover some capital.

We believe that, in our geographical market, there are a mix of early- and later-stage investment prospects, and that the investment strategy of EGL-IV must reflect this mix of opportunities. We plan to invest in both early- and later-stage equity financings of growth companies, as diversifying our investments across different stages of development makes sound financial sense. Early-stage investing maximizes our return potential by purchasing equity in young companies at low valuations. Later-stage investing helps reduce risk in our portfolio and enable us to accelerate liquidity events to our investors.

In all cases, we will continue to emphasize investments where our principals can add substantial value. Our deep experience in building companies lets us offer hands-on operational skills to young startup companies. At the same time, with our experience as corporate executives overseeing large divisions and shepherding them through major events, we also have the tactical experience to assist more mature companies as they approach significant exit points.

A Record of Leadership

As detailed above, our network gives us early access to the most attractive deals at all stages of growth. In two-thirds of the investments made in our previous funds, we were the first institutional investor (after friends and family). From a financial perspective, this gives us maximum leverage, by investing before subsequent investors drive up the price. Equally important, from an operational perspective, our early relationship with the company means we build a position of strong influence with company founders and management.



EGL was first institutional investor in 20 out of 31 deals.

We normally exercise this position through a board seat. In over 80% of our investments, we have had one or more board seats in the portfolio company. Particularly in smaller companies, our history confirms that our influence over strategy and operations can significantly improve a company's performance. If performance does not meet expectations, a board seat is the best vehicle from which to launch a change in management, which we have had to do several times.



EGL Principals held board seats in 26 out of 31 deals.

Previous Syndicate Partners

At EGL, we like to be known by the company we keep. We strongly believe in syndicating every deal—an extra set of eyes and ears at the board table can work wonders, and an additional investor to help support portfolio companies through potentially difficult times is always a prudent move. At the same time, we believe in sharing our deals with syndicate partners that have similar philosophy and values, not just the ones with the most money.

In the last fifteen years, we have syndicated investments with leading venture and corporate investors across the U.S. In most cases (marked with ♦), we invited them into a deal that we led, or they invited us to lead a later round to tap into our expertise and contacts.

- ♦ Advanced Technology Ventures
- ♦ Allen Telecom
- ♦ AT&T Ventures
- ♦ Bank of America Ventures
- ♦ CBS
- ♦ Charles Schwab
- ♦ Chase Capital Partners
- ♦ Kinetic Ventures
- ♦ Kitty Hawk Capital
- ♦ Kleiner Perkins Caufield & Byers
- ♦ Lucent Ventures
- ♦ Mellon Ventures
- ♦ NBC & NBCi
- ♦ Noro-Moseley Partners

- ◆ Coral Ventures
- ◆ Cordova Ventures
- ◆ Crystal Ventures
- ◆ Dauphin Capital
- ◆ Domain Associates
- ◆ EMC Ventures
- ◆ Five Paces Ventures
- ◆ FT Ventures
- ◆ Gannett Corporation
- ◆ GE Capital
- ◆ Grotech Capital
- ◆ Halpern Denny
- ◆ Imlay Investments
- ◆ Intelligent Systems
- ◆ ITC Holdings
- ◆ IVP / Redpoint
- ◆ JK&B Capital
- ◆ PanAmSat
- ◆ Prism Ventures
- ◆ Quadrangle Capital
- ◆ Reuters
- ◆ Riggs Capital
- ◆ Robinson Humphrey
- ◆ Sand Hill Capital
- ◆ Sandler Capital Management
- ◆ Sevin Rosen Funds
- ◆ Technology Crossover Ventures
- ◆ Thayer Capital Partners
- ◆ US Venture Partners
- ◆ US West
- ◆ Vantage Point Venture Partners
- ◆ Weston Presidio
- ◆ Winstar
- ◆ Winston Partners

We are confident that, with EGL Ventures IV, we will be able to continue our practice of syndicating deals with these partners, and new ones of equal strength, size, and industry expertise.

International Connections

The economy has become more global, with even small companies needing an international presence. We have used our close ties to HgCapital and Bridgepoint Capital, two of the largest private equity funds in Europe, as well as direct relationships with many senior executives across Europe, to help our companies achieve their international goals. We expect to do the same with EGL-IV.

A Record of Success

As detailed in Section V of this document, EGL's Principals have a strong track record of success across all stages of growth companies. Our previous portfolio choices are consistent with the investment strategy we plan to pursue with EGL Ventures IV. Past performance is never a guarantee of future results, but we seek to continue delivering superior returns to our limited partners.

Section IV. People

Partnership Management

EGL Ventures IV will be managed by three Principals: Dr. David Ellis, Stephen Fleming, and Salvatore Massaro.



Dr. David Ellis

Dr. Ellis was born in the United Kingdom, where he received a British Petroleum scholarship to the University of St. Andrews. He earned an Honours degree in Chemistry in 1964, followed by a Ph.D. in Biophysics in 1967. After university, he joined 3i Group PLC, one of the largest private equity managers in the world. From his original position as Management Trainee, David progressed through the Technology Investment arm (Technical Development Capital Limited) and Regional Management network. After attending the Senior Executive Program at the Sloan School of MIT, David was selected to found and lead the team responsible for 3i's technology investments and turnaround investments, where he had oversight of over 100 private equity investments.

From 1975 to 1981, David held operational roles in the U.K. and the U.S. for various 3i portfolio companies:

- COO and CEO of B.H. Blackwell Ltd., the world's largest distributor of library materials. Acquired its largest competitor, Richard Abel & Company (Portland, Oregon).
- CFO of Software Sciences International Ltd., a computer systems group specializing in defense systems, air traffic control and newspaper automation. Orchestrated the sale to BOC Group plc.

- CEO of Software Sciences Inc. In the U.S. book industry, David introduced specialized point-of-sale systems, back-office inventory control systems, and MIS systems, most notably in association with the Ingram Book Company.

In 1982, David acquired Corporate Finance Associates of Georgia (“CFA”), a middle-market investment banking group focused on European companies expanding into the U.S. One of his major successes was the introduction of super-conducting magnet technology into the U.S. for what became the MRI industry; as part of this work, he served on the board of Oxford Instruments Group plc. David was also an advisor and early angel investor in Technical Analysis Corporation (developer of the IRMA board) that became the heart of Digital Communication Associates (DCA).

In 1988, David and Sal launched EGL’s venture capital and private equity business. Based on David’s relationships in British finance circles, they raised capital for EGL’s U.S. venture investments, initially from Mercury Asset Management plc, followed later by the private equity division of The National Westminster Bank. EGL invested in a wide range of sectors, including information technology, healthcare, instrumentation, manufacturing, and distribution businesses, and at all stages of development. All investments have been realized.

In May 1997, David was in a serious automobile accident from which he has recovered but which requires him to use a wheelchair. David has turned this difficult experience into a positive for his life and for EGL.

David’s adoption of assistive technologies such as an advanced electric wheelchair and voice-recognition software ensure that he is fully engaged in the business and is completely capable of serving as one of the Principals of EGL-IV and beyond. His determination is unparalleled, and he is an inspiration to all who know him. In the words of one of our portfolio company CEOs, “David has used his wisdom, with which God has amply endowed him, and his unflagging persistence, in the face of unbelievable adversity, to rebuild his persona to the point that he is much sought after for help in making things happen that ordinary mortals cannot—and he’s great at that!”

David has been very active in the Atlanta technology community since his arrival in 1979. He co-founded the MIT Enterprise Forum of Atlanta and, in 1998, received the Georgia Technology Forum award for “Outstanding Contribution to the Technology Industry.” He currently serves on the advisory board of the College of Sciences at Georgia Tech, as well as the advisory boards of the Shepherd Center, Neural Signals Inc., and two Rehabilitation Engineering Research Centers. David’s memberships include the Technology Association of Georgia, the Technology Executive Roundtable, the British-American Business Group, and the Atlanta Venture Forum.



Stephen Fleming

Mr. Fleming began his career as an Associate Member of Technical Staff at AT&T Bell Laboratories in 1979. While at Bell Labs, he published some of the first experimental data regarding single-mode optical fiber splicing. After graduating as valedictorian from Georgia Tech in 1983 with a 4.0 average (*summa cum laude*) in theoretical physics, Stephen joined Northern Telecom and shortly moved from an engineer to product management, focusing on the nascent broadband marketplace where he was responsible for negotiating product features and schedules with marketing, design engineering, and manufacturing.

In 1987, Stephen joined LICOM, a venture-funded startup in the Dulles Corridor outside Washington, D.C., as VP of Product Management, and as acting VP of Marketing. LICOM raised \$22 million of venture capital from a top-tier syndicate (Warburg Pincus, Welsh Carson, and Oak Investment Partners), built an award-winning fiber optic multiplexer for the telco carrier marketplace, and was acquired in 1989. Mr. Fleming returned to Northern Telecom as a director in the Eastern Sales Region, and later as Director of Strategic Marketing for all of Nortel's broadband products and Associate VP of Marketing for Broadband Access.

In 1994, Mr. Fleming entered the private equity industry by joining Alliance Technology Ventures, an early-stage venture capital firm headquartered in Atlanta, as its second general partner. He helped complete fundraising for ATV-I (which closed at \$35 million under management), and was instrumental in raising ATV-II (\$75 million in 1998) and ATV-III (\$150 million in 2000). While at ATV, Stephen made 18 investments (14 as lead investor and board member) in a range of industries including wireless equipment, telecommunications systems, semiconductors, enterprise software, and Internet services.

Mr. Fleming spent much of 2000 and 2001 solving portfolio company issues. Early in 2002, the partners of ATV decided that the fund should focus more on national biopharma targets, and Stephen resigned from ATV. Since that time, he focused on consulting work, teaching, and personal angel investments before joining EGL full-

time in late 2003. He periodically teaches a semester-long class in entrepreneurship to second-year MBA students at Georgia Tech, and is a frequent lecturer at the Venture Capital Institute sponsored by NASBIC and NVCA.

Mr. Fleming is very active in the Atlanta technology community, where he launched and hosted a startup showcase series for angel and VC investors. He became deeply involved in the state of Georgia's public policy debates concerning high technology, and served on the board of directors for the Georgia Center for Advanced Telecommunications Technology (GCATT). Stephen also continued his close relationship with Georgia Tech, endowing a professorship and serving on advisory boards for the College of Computing and the Georgia Tech College of Management. He is a member of the IEEE, the American Physical Society, the Optical Society of America, and a number of regional technology organizations. Mr. Fleming also serves on the board of Tech High School, a charter high school emphasizing science, math, and technology in Atlanta.



Salvatore Massaro

Sal Massaro has been a partner at EGL since he and David Ellis founded the EGL venture capital and private equity business in 1988. Mr. Massaro has had responsibility for growth capital investments in a broad range of industries including information technology, telecommunications, instrumentation, and healthcare. As a board member of several EGL portfolio companies, Mr. Massaro has provided advice on strategic, financial and operational challenges to companies at all stages of development.

Sal began his career in the management consulting group of Price Waterhouse in New York City in 1978. In this role, he advised clients on their financial management information systems, and on mergers and acquisition activities. Representative clients included Corning Glass Works, Drexel Burnham Lambert, and The Ford Foundation.

In 1982, he took an operational role as CFO of Telesphere International, a supplier of long-distance and operator-assisted telephone service and telecommunications equipment to the hotel industry. He was responsible for all finance, accounting, tax, and investor affairs of the company, completing a mezzanine round of venture capital and managing the company's initial public offering through D.H. Blair & Co. At the time, he was the youngest CFO of a publicly-traded company in the United States. Before leaving Telesphere, Mr. Massaro financed the company's entry into the long-distance business by raising secured debt capital through Chemical Bank and through a secondary public offering managed by Smith Barney & Co.

In 1985, Mr. Massaro moved to Atlanta to join Prudential-Bache Venture Capital, Inc. ("PBVC") as Vice President, Business Development. PBVC was the venture capital arm of Prudential-Bache Securities, organized as a public limited partnership. PBVC was an early attempt to provide venture capital returns to the individual retail investor. Sal joined David at CFA in 1986. In 1988, he and David launched EGL's private equity business.

He has served as a board member of the Atlanta Venture Forum since 1990, where he is heavily involved in the State of Georgia's public policy debate concerning economic development, venture capital and high technology. Mr. Massaro was president of SORASBIC (Southern Regional Association of SBICs) from 1998 to 1999, and is a former member of the Board of Governors of NASBIC (the National Association of SBICs). His professional memberships include the Association for Corporate Growth, the Business & Technology Alliance, IEEE, Institute of Management Accountants, MIT Enterprise Forum, NASBIC, SORASBIC, the National Venture Capital Association (NVCA), Southeastern Software Association, and the Technology Association of Georgia.

Sal earned his BSBA degree *magna cum laude* from Georgetown University in 1976, and his MBA from the Harvard Graduate School of Business Administration in 1978.

❖ **Additional Management**

The EGL team will be augmented by the addition of two senior associates after the initial closing of EGL Ventures IV. We have identified two lead candidates, well known to us, with relevant venture capital, investment banking, and private equity experience. These individuals will work closely with portfolio companies and will assist with marketing, deal screening, and due diligence.

Advisory Committee

It is critically important to have a network of trusted industry experts who can help us with identification, evaluation, and ongoing support of our portfolio companies. We have chosen advisors for their ability to assist EGL and our portfolio companies with their technical expertise, business contacts, and strategic insight. They participate in deal identification, due diligence, and the ongoing support of our portfolio companies.

These individuals will serve as non-voting members of the EGL-IV Advisory Committee. (*Voting* members represent our limited partners, as outlined in Section VIII below.) Our advisors include CEOs, scientists, academics, investors, and industry leaders.

Ian Armitage

Founder and Managing Partner, HgCapital, a London-based private equity firm. HgCapital is the successor to the private equity business of Mercury Asset Management plc, a major limited partner in prior EGL funds.

Mark Braunstein

Founder, Chairman, and CEO of Patient Care Technologies, a leading provider of healthcare information systems for the home-care industry. Previously President of NDC Health, Mark is presently Chairman of the Board of Georgia Advanced Technology Ventures, and Chairman of the MIT Enterprise Forum of Atlanta.

Jean-Lou Chameau

Provost and VP, Academic Affairs, Georgia Institute of Technology; formerly Dean, College of Engineering, Georgia Tech. Jean-Lou directs over \$350 million/year in academic research, as well as supervising the largest college of engineering in the U.S.

Michael Cronin

Founder and Managing Partner, Weston Presidio Capital, a Boston-based private equity firm with \$2.3 billion under management. Previously, Michael was a senior officer at Security Pacific Capital Corp., a bank-oriented SBIC. He is currently serving on the board of the NVCA.

Joseph Forgione

Vice President, Network Solutions at Novell (Boston) responsible for global business solutions that draw from all company capabilities including products, consulting, technical support, training, and partnerships; formerly CEO of Eprise Corporation.

John Hancock

CEO of MFI Furniture Group plc. Former executive director of WHSmith. John is also a non-executive director of Manchester Airport Group.

Jim Krugman

Former Chairman, President, and CEO of multiple companies, including Meadox Medicals, a medical device company now owned by Boston Scientific Corporation. Jim is also an active investor in entrepreneurial companies and an investor in prior EGL funds.

John Lappington

VP, New Business Development of Broadcom. Co-founder and CEO of Digital Furnace, which was acquired by Broadcom. Previously President of Antec's Network Products Group; founder and President of ESP. John holds 11 patents in cable transmission and electrical engineering.

Douglas McMahon

VP, Systems Solutions for Hewlett Packard, focusing on H-P's telecommunications business. Doug has spent 21 years with H-P and Agilent, with positions in consulting, engineering, R&D, sales, and general management.

Howard Morrison

Retired VP, Bank of America (and predecessor banks); currently chairs the Technology Committee of the Georgia Department for Economic Development. Howard has been an aggressive promoter of knowledge-based businesses in Georgia for over 20 years and is an active investor in entrepreneurial companies.

Barrett O'Donnell

CEO of O'Donnell-Davis Investments. Former Chairman and CEO of CareCentric, a healthcare information systems developer. Barrett is also an active investor in entrepreneurial companies and an investor in prior EGL funds.

William Woulfin

CEO of Metabolic Testing Services. Bill is the former Chairman and CEO of LecStar, a competitive local exchange carrier (CLEC), and former Executive Vice President of Computer Generation, a telecommunications software developer and marketer.

We may name additional non-voting members of the Advisory Committee during the fundraising process. All members will make individual investments in EGL Ventures IV. No cash compensation is anticipated other than customary reimbursement of out-of-pocket expenses; non-voting members will be granted a portion of the General Partners' carried interest.

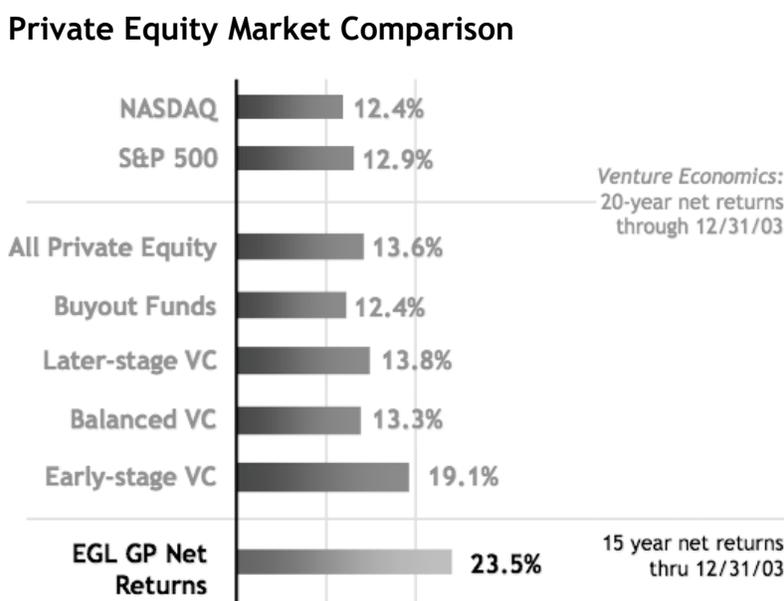
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Section V. Performance

The Principals of EGL Ventures IV have demonstrated excellent investment performance over the last 15 years. We have invested \$107 million in 31 companies. On a *pro forma* combined basis, those investments returned \$184 million (1.7×) as of December 31, 2003. That corresponds to a *pro forma* combined gross internal rate (“IRR”) of return of 30.1%. *Pro forma* combined net returns (net of management fees and carried interest) are 1.5× and an IRR of 23.5%.

Those calculations make assumptions about the market value of six unrealized investments that the Principals believe are relevant. On a fully-realized basis only, the investments have returned \$171 million of cash and freely-tradeable securities. The *pro forma* combined gross realized multiple is 1.6×, and the *pro forma* combined IRR is 29.4%. *Pro forma* combined net realized returns are 1.4× and a 22.5% IRR.

These returns compare favorably with Venture Economics data for all venture funds over the last twenty years:



The following table details each investment led by one or more of the Principals of EGL-IV since 1988. For calculation methodology, please refer to Appendix D.

Investment	Initial Transaction Type	Investment Responsibility [Note 7]	Location	Initial Investment Date	Investment Cost (\$K)
Pi Holdings	Expansion	EGL	Atlanta	1989	\$500
Zarina Holdings	Growth/Recap	EGL	Fort Lauderdale	1990	\$9,425
Automated Design Systems	Expansion	EGL	Atlanta	1990	\$1,225
The Learning Co. (ZSoft)	Growth/Recap	EGL	Atlanta	1990	\$3,588
Fluid Data Inc.	Expansion	EGL	Angleton, Texas	1990	\$1,388
Checkmate Electronics	Expansion	EGL	Atlanta	1992	\$100
Simione Central Holdings	Expansion	EGL	Princeton, NJ	1992	\$2,503
Artcraft	Growth/Recap	EGL	Atlanta	1993	\$3,033
Physician Health Corporation	Expansion	EGL	Atlanta	1995	\$9,602
RF Micro Devices	Expansion	SRF	Greensboro, NC	1995	\$1,494
Synchrologic	Early	SRF	Atlanta	1995	\$2,979
Sportslite	Expansion	SRF	Fort Lauderdale	1996	\$2,277
Pathfire	Early	SRF	Atlanta	1996	\$7,705
Astracom	Early	SRF	Atlanta	1997	\$1,150
Carecentric	Expansion	SRF	Atlanta	1997	\$2,664
Digital Furnace	Early	SRF	Atlanta	1998	\$2,450
Eprise	Expansion	SRF	Massachusetts	1998	\$4,000
Telaxis	Growth/Recap	SRF	Massachusetts	1998	\$4,981
Home Wireless	Expansion	SRF	Atlanta	1998	\$7,337
Verifiber	Early	SRF	Atlanta	1998	\$1,500
ValuBond	Early	SRF	Atlanta	1999	\$6,947
iPower	Early	SRF	Atlanta	1999	\$100
iFleet	Expansion	EGL	Atlanta	1999	\$5,183
Total Sports	Expansion	EGL	Raleigh, NC	1999	\$2,255
SecureWorks	Early	SRF	Atlanta	2000	\$3,292
AtWork Technologies	Expansion	EGL	Atlanta	2000	\$2,642
Renaissance Interactive	Expansion	EGL	Columbia, SC	2000	\$1,075
ZapMedia	Expansion	SRF	Atlanta	2000	\$1,980
BocaPhotonics	Early	SRF	Boca Raton, Fla.	2000	\$541
BroadRiver	Expansion	SRF	Atlanta	2000	\$7,865
RF Solutions	Expansion	SRF	Atlanta	2000	\$4,892
Total					\$106,672

Continued on facing page

Notes	
[1]	Sold to Pumatech (PUMA); in lockup period. Valued at cost.
[2]	Still private. Early rounds valued at zero (washout); last round valued at 50% of cost.
[3]	Sold to Bandwidth9 (private company); outcome still uncertain. Valued at zero.
[4]	Still private, on plan, profitable. Valued at cost.
[5]	Still private, on plan approaching profitability. Valued at 50% of cost.
[6]	Sold to Anadigics (ANAD); in lockup period. Valued at 25% of cost.
[7]	"SRF" indicates investment made by Stephen R. Fleming as part of prior non-EGL funds.
Above investments span multiple prior funds. For calculation methodology, refer to Appendix D.	

Exit Date	Type of Exit	Realized Return (\$K)	Unrealized Valuation (\$K)	Investment Multiple	Note	Investment
1999	Trade Sale	\$27		0.1 X		Pi Holdings
1996-2002	Trade Sale	\$30,796		3.3 X		Zarina Holdings
1994	Trade Sale	\$2,864		2.3 X		Automated Design Systems
1993	Trade Sale	\$6,390		1.8 X		The Learning Company(ZSoft)
1995	Trade Sale	\$2,183		1.6 X		Fluid Data Inc.
1994	Secondary	\$873		8.7 X		Checkmate Electronics
1997	Secondary	\$13,330		5.3 X		Simione Central Holdings
2000	Trade Sale	\$4,504		1.5 X		Artcraft
2000	–	\$330		0.0 X		Physician Health Corporation
1998	IPO	\$5,921		4.0 X		RF Micro Devices
2004	Trade Sale	–	\$2,979	1.0 X	[1]	Synchrologic
1998	IPO	\$17,115		7.5 X		Sportslines
–	Still Active	–	\$771	–	[2]	Pathfire
1999	Trade Sale	\$1,410		1.2 X		Astracom
2001	Trade Sale	\$105		0.0 X		Carecentric
2000	Trade Sale	\$44,230		18.1 X		Digital Furnace
2000	IPO	\$28,898		6.2 X		Eprise
2000	IPO	\$10,375		2.1 X		Telaxis
2000	Trade Sale	\$0		–		Home Wireless
2000	Trade Sale	\$0		–	[3]	Verifiber
–	Still Active	–	\$6,947	1.0 X	[4]	ValuBond
1999	–	\$58		0.6 X		iPower
2003	–	\$0		–		iFleet
2001	–	\$0		–		Total Sports
–	Still Active	–	\$1,646	0.5 X	[5]	SecureWorks
2002	Trade Sale	\$1,170		0.4 X		AtWork Technologies
2002	Trade Sale	\$7		0.0 X		Renaissance Interactive
2001	–	\$0		–		ZapMedia
2002	–	\$0		–		BocaPhotonics
2002	–	\$0		–		BroadRiver
2004	Trade Sale	–	\$1,223	–	[6]	RF Solutions
		\$170,584	\$13,566	1.6 X		Total

<i>Pro Forma</i> Realizations and Unrealized Values	Total Inv. Cost	Total Realized	Current Valuation	Total Return
Realized Return			N/A	\$170,584
Realized Return plus Unrealized Valuation	\$106,672	\$170,584	\$13,566	\$184,150

<i>Gross Returns (pro forma)</i>	Multiple	IRR
Realized Return	1.6x	29.4%
Realized Return plus Unrealized Valuation	1.7x	30.1%

<i>Net Returns (pro forma, net of management fees and carried interest)</i>	Multiple	IRR
Realized Return	1.4x	22.5%
Realized Return plus Unrealized Valuation	1.5x	23.5%

Section VI. Portfolio

The Principals of EGL Ventures IV have made 31 investments over the last 15 years. The following pages provide a sampling of some of these companies (in alphabetical order), with an emphasis on how we added significant value as lead investors, board members, and trusted advisors to management.



Investment Date	1990
Amount Invested	\$1.2 million
Exit Date	1994
Amount Realized	\$2.9 million
Multiple	2.3x
IRR	32%

Automated Design Systems

ADS was a leading developer of network management tools for complex Windows-based LANs. One of the founders was employed by David Ellis before starting the company.

As an active board member, David helped strengthen and expand the management team, expand distribution channels, and acquire a new related line of business. In 1992, Sal Massaro joined the board to help resolve a dispute between the founders. The situation was resolved by the termination of one founder and the appointment of David and Sal as CEO and CFO, respectively. Sal developed a financial plan with the remaining founder that returned the company to profitably and positive cashflow.

EGL led the first and second rounds of funding in 1990 and 1993, investing a total of \$1.2 million. The company was sold to McAfee Associates in 1994, with EGL playing an active role in the negotiations. The investment returned \$2.9 million to EGL for a multiple of 2.3x and a 32% IRR.



Investment Date	1992
Amount Invested	\$100,000
Exit Date	1994
Amount Realized	\$870,000
Multiple	8.7x
IRR	> 300%

Checkmate Electronics

Checkmate was a leading manufacturer of point-of-sale checkreading/credit/debit card devices. In 1992, the company had been public for some time, but had

encountered difficulties; in industry jargon, it was one of “the living dead.” It was introduced to EGL by a long time friend of the firm who was also an investor in Checkmate.

David and Sal structured and syndicated an equity financing for the company in 1992 and simultaneously persuaded the company’s bankers to increase the company’s line of credit. EGL made a small investment as part of this financing. As an active board member, David Ellis helped the company grow revenues from \$2 million to \$17 million, with a dominant position in its market segment, and assisted with a \$17 million secondary offering in 1993. The public stock increased in value by 9× in 18 months.

EGL invested only \$100,000, but returned \$870,000 in public stock in 1993. This represented an 8.7× multiple and an IRR over 300%.



Investment Date	1998
Amount Invested	\$2.4 million
Exit Date	2000
Amount Realized	\$44.2 million
Multiple	18.1x
IRR	> 500%

Digital Furnace

Digital Furnace developed proprietary algorithms for increasing the capacity of cable modems. The original technology was developed at Georgia Tech. Stephen Fleming identified the technology as being commercially interesting, and introduced the researcher to a local serial entrepreneur with whom Stephen had worked previously. The three worked together to incorporate the company; Stephen’s strong relationship with Georgia Tech cleared the path to an attractive licensing deal.

Mr. Fleming supported two seed rounds of investment without a syndicate partner. As an active board member, Stephen enlisted two other venture firms to invest in the Series B round. After playing a key role in recruiting additional management, he was deeply involved in negotiations for a strategic Series C round that evolved into a purchase of the company by Broadcom.

Fleming oversaw three investments in Digital Furnace totaling \$2.5 million. After the acquisition, Fleming’s fund received \$44.2 million in Broadcom stock. Stephen exited the stock prudently, ensuring that his limited partners enjoyed an 18× multiple and an IRR above 500%.



Investment Date	1995
Amount Invested	\$1.5 million
Exit Date	1998
Amount Realized	\$5.9 million
Multiple	4.0x
IRR	77%

RF Micro Devices

RF Micro Devices was founded to build highly linear GaAs (gallium arsenide) semiconductors for the mobile telecommunications market.

Stephen Fleming’s previous fund was introduced to the company by a colleague in the venture capital business; the fund led the Series B round of investment at a valuation of \$17 million. The company went public four years later, and currently enjoys a market capitalization of over \$1.5 billion.

As a very active board observer, Mr. Fleming was involved in decisions to raise a significant strategic round of capital from a corporate partner and to “bet the company” on building a new GaAs chip fabrication facility. These decisions led RFMD to a dominant position in its initial market segment.

Stephen oversaw two investments in RFMD totaling \$1.5 million. After the IPO, his fund distributed \$5.9 million of stock, for a 4x multiple and a 77% IRR. The investors who held the stock saw a further tenfold appreciation of value within two years.



Investment Date	1995
Amount Invested	\$3.0 million
Exit Date	2004
Amount Realized	approx \$9.0 million
Multiple	3.0x
IRR	20%

Synchrologic

Synchrologic developed complex client/server software to integrate corporate data across mobile networks. The founders were introduced to Stephen Fleming by colleagues at the Georgia Research Alliance, a public-private partnership promoting high technology in the state. Stephen seeded the investment and, after incorporating the company, led a first round of local venture investors.

Mr. Fleming, as an active board member, helped recruit a top-notch CEO and, eventually, helped ease the two founders out of the company. He also exercised his contacts in the venture industry to bring in new investors for the Series B and C

rounds. Stephen led the development of a new business plan for the company, and met with key potential customers as part of the sales process. Across all rounds, Mr. Fleming supervised investments totaling \$2.5 million.

The company negotiated a merger with Pumatech in 2003; the combined company was renamed Intellisync. Fleming's investments are still subject to a lockup agreement, but will return approximately 3× for an IRR of 20%.



Investment Date	1990
Amount Invested	\$9.4 million
Exit Date	2002
Amount Realized	\$30.8 million
Multiple	3.3x
IRR	30%

Zarina

Zarina was a holding company for The Baracuda Group, the world's largest manufacturer of automatic swimming pool cleaners. This investment provides useful insight into EGL's role as a value-added investor.

EGL was introduced to Zarina's management in 1990 by Atlanta investment banking colleagues. After doing extensive due diligence and recruiting a new Group CEO and CFO, David Ellis and Sal Massaro negotiated a buyout of the existing shareholders, syndicated the equity and mezzanine financing for the deal and raised senior debt acquisition financing for the transaction. As Chairman, David Ellis worked with the management team to further develop existing markets and to aggressively acquire external technology to accelerate product development. Sal Massaro worked with the Group CEO to recruit a new CEO of the U.S. business and a new Group R & D Director. Until the new R & D position was filled, Sal Massaro and the Group CEO shared duty as Interim R & D Director.

Groupe Zodiac SA acquired Zarina in 1996 for cash. EGL's investment of \$9.4 million was valued at \$31 million. This represented a 3.3× multiple and a 30% IRR.



Investment Date	1990
Amount Invested	\$3.6 million
Exit Date	1993
Amount Realized	\$6.4 million
Multiple	1.8x
IRR	38%

ZSoft / The Learning Company

ZSoft (later renamed The Learning Company) was a leading developer and distributor of graphics, education, entertainment, and productivity software. An Atlanta legal advisor introduced the company to EGL.

EGL purchased a controlling interest in ZSoft from a distressed parent company in 1990. At that time, ZSoft led the market for image-editing software, and offered promising growth opportunities in new markets. From his board seat, David Ellis spearheaded an overall strengthening of key management (including the CEO, CFO, and VP of Sales/Marketing) and aggressively drove a consolidation that led to a merger with WordStar in 1993.

In 1994, the company merged with Spinnaker Software and SoftKey International to create a leading consumer software company. EGL's investment of \$3.6 million returned \$6.4 million in public stock, for a 1.8x multiple and an IRR of 38%.

Section VII. Process

Our experience over the years has taught us that a disciplined investment process is critical to making the best use of our limited partners' money. Attention to detail will never turn a bad deal into a good one—but it can greatly improve our ability to avoid getting into flawed deals, or our ability to salvage value from a deal that has not met expectations.

Deal Flow

Like most venture firms, we find ourselves deluged in business plans. We believe that overall *quality* has generally improved over the last several years. Management teams are more experienced, and financial expectations are more realistic. However, it is rare for us to invest in a company that sends us an unsolicited business plan.

Essentially all of our investments come to us through our network of contacts, including members of our Advisory Committee, investment bankers, attorneys, accountants, and academics. All plans are logged in our proprietary venture-tracking database.

❖ Extensive Network

We have spent the last fifteen years in the Southeastern private equity market. During that time, we have co-invested with over 50 other firms and worked with over 30 different management teams. We have been a part of over 70 financings and have developed relationships with all members of the financial community (investment banking, secured debt providers, and commercial lenders). In the process, we have built associations with many other service providers, such as lawyers, recruiters, accountants, and consultants. We spend time with the research universities to give us early visibility to new opportunities. In addition, we are frequently invited to speak at industry conferences and other events involving venture capital and entrepreneurship. Our network is comprehensive in the Southeast, and extends to strong relationships on the West Coast, the Northeast, and in Europe.

◆ *HgCapital Relationship*

We enjoy a long-established and productive relationship with HgCapital, a leading European mid-market private equity investor with over \$1 billion under management. (Ian Armitage, Founder and Managing Partner, serves on EGL's Advisory Board.) EGL will continue to have access to specialist teams, availing ourselves of HgCapital's expertise and knowledge of various industrial sectors, including technology and healthcare. In return, we contribute a U.S. perspective to their analysis when appropriate. We believe HgCapital enables us to target promising opportunities, establishing where they have potential to exploit European markets.

◆ *Weston Presidio Relationship*

Our network includes close ties to Weston Presidio, a highly-successful growth capital firm with offices in Boston and the Bay Area. (Michael Cronin, Founder and Managing Partner of Weston Presidio, serves on EGL’s Advisory Board). In situations where Weston Presidio chooses to make an investment in the Southeast—an area generally under-represented in Weston’s portfolio—they may invite us in as a local co-investor. For smaller deals, EGL may invest alone, with Weston Presidio considering investing in later rounds. In reciprocation, when EGL identifies promising investments that meet our criteria other than the amount of capital required, we may offer the opportunity to Weston Presidio as a syndicate partner.

❖ **Proactive Deal Generation**

We don’t just wait for deals to emerge from our network. Some of our best investments have been in situations where we helped organize the opportunity—coordinating intellectual property, management talent, and capital. We expect to continue this process of proactive deal generation with EGL-IV.

One approach is to follow the intellectual property development at Southeastern universities and research centers. We have done well with this in the past, “walking the halls” at Georgia Tech to find the best technologies emerging from laboratories. Our relationship with Hg Capital helps us target the most promising developments. In many cases, the lead researchers do not have the background or the temperament to launch an entrepreneurial company. We can tap EGL’s network of entrepreneurs, finding the right match to get the startup off the ground.

A second approach to proactive deal generation is to maintain our excellent network of serial entrepreneurs. There are certain individuals who have repeatedly demonstrated an ability to create value; we will always want to review their new endeavors to see if there is a match for EGL. With our track record of success and reputation for integrity, these entrepreneurs often approach us very early in the process of creating or joining a company, before organizing their search for seed, early- or later-stage capital. This gives us early access to promising startups and attractive growth companies.

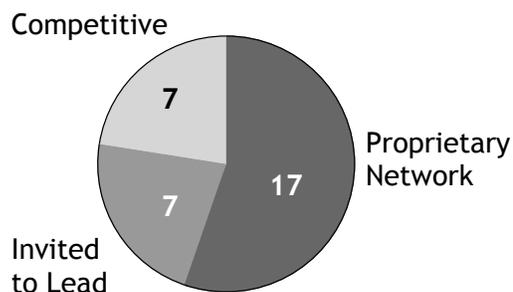
In some cases, we have a history of maintaining “entrepreneurs in residence,” where we have brought talented CEOs and CFOs in-house to proactively seek investment opportunities to be brought under their leadership. Some of our most successful deals have been sparked through these arrangements.

Both of these approaches to deal generation—delving into technology and maintaining an excellent network—require a tight focus on our community, which is where all three EGL Principals excel. All of us devote significant amounts of time to “giving back,” whether in technology-related associations or through other *pro bono*

activities. As a trusted source of advice as well as capital, we are frequently invited to look at opportunities well before they are actually ready for professional venture investment. Our time with these management teams often amounts to free consulting advice; however, it can lead to preferred deal access later in the process.

❖ Sources of EGL Deals

Of the 31 investments that the EGL Principals have made, the preponderance demonstrate the value of our network and our ability to generate deals. In 17 cases, we identified the investment prospect from within our proprietary network of service providers, entrepreneurs, and academics. We believe that most or all of these deals would not have been consummated without EGL's participation.



In seven more cases, the Series A investor invited us to lead a subsequent round in order to take advantage of our contacts, experience, and industry expertise. Finally, seven deals were offered to multiple venture capital firms, and EGL won a position in the final syndicate; in four of those seven investments, we acted as the lead.

❖ Deal Review

In cases where a business plan is referred by a trusted source from our network, the relevant EGL investment professional prepares a preliminary review for the weekly team meeting, and logs the prospect in our tracking database according to its perceived priority. All team members have discretion regarding whether to set up an initial phone call or meeting to gather more information, and may choose to do so in advance of the team report.

Typically, we pursue at least one meeting with any team referred by a trusted member of our deal flow network. Not only are these referred plans typically of a higher quality and more likely to fit within our portfolio, but meeting with referred entrepreneurs is a good way to reinforce our deal flow network and encourage future referrals.

We make every attempt to respond to submissions within two weeks. Once we have met with a company, we are typically able to discuss the opportunity during the next weekly team meeting and get back to management within one week to notify them of our decision to pursue further due diligence or pass.

Once we have discussed a company and decided to set up a meeting, interactions generally involve at least one Principal. If there is particular urgency regarding a deal, we may elect to have two or three investment professionals present for the first meeting in order to expedite the review process. In all cases, each Principal will have

met at least once, and often several times, with company management before we make an investment.

We always consider the quality of the management team first, and we only proceed to deal with other issues if we feel the team we've met is one we would back financially. Failure to meet this criterion alone is responsible for the vast majority of early rejections. Beyond management, we also consider the other criteria (listed below) when making our decision to proceed.

Investment Pace

We are already looking at a number of prospects for investment and are confident that our deal flow/generation will fill the EGL-IV pipeline with excellent opportunities.

Our experience has shown a good rule of thumb to be that “for every ten business plans reviewed, we schedule one meeting; for every ten companies we meet with, we'll make one deal.” While not a hard and fast rule, this would imply that, to achieve our targeted investment pace, we would need a deal flow of 600 business plans per year. We anticipate no problem in generating and managing that level of deal flow.

❖ Focused Criteria

There are no mysteries surrounding the criteria for a successful venture-backed company. Venture firms most often get in trouble by ignoring those criteria... believing the dangerous assertion that “it's different this time.”

In addition to the overriding consideration of the quality of management, we consider:

- Quality of the product or service,
- Size and growth rate of the market,
- Ability to achieve market leadership,
- Capital requirements, now and in the future,
- “Holes” in the management team,
- Intellectual property position,
- Customer relationships,
- Competitive environment,
- Fit with our portfolio,
- Ability of EGL to add value,
- Pre-existing financial terms,
- Quality of the syndicate, and
- Exit potential.

Due Diligence

There is no substitute for careful and exhaustive due diligence—regarding not only investment prospects, but also the market and the market opportunity available to the candidate portfolio company. When a prospect proceeds to due diligence, the process involves an investment team led by one of our Principals. When appropriate, we augment this team with outside accountants, attorneys, and industry-specific experts to complete an in-depth analysis of the company, the industry, the technology, the management team, and the market opportunity.

Our analysis includes multiple meetings with management, rigorous analysis of the company's historical financial statements, and careful analysis of detailed financial projections, with a strong focus on assumptions, necessary capital expenditure programs, the capital structure, operating margins, and projected growth. Further analysis includes the company's management team (background checks and reference checking), its products or services (supplier and customer analysis and interviews), and its competitors (market share analysis and trends, cost structure analysis). Moreover, we make a critical analysis of the company's business plan and the likelihood of the company achieving its financial objectives. Review of the company's business plan includes an analysis of the market opportunity available to the company, the necessary market share for it to achieve its projected financial performance, and the ability of the company to penetrate and defend that market.

During the due diligence process, we also carefully evaluate the exit opportunities available to the investment prospect, and the projected time frame and performance needed for a successful liquidity event.

Due diligence normally takes 30–45 days, but may take longer when we encounter ambiguities or difficulties in building a case. At the end of the process, the EGL Principals make a decision whether to proceed with preparing a term sheet for an investment. A decision to proceed is documented with a written investment memorandum signed by each Principal. All investments must gather the unanimous support of *all* the Principals.

Deal Management

Our standard term sheet has been honed over years of experience to maximize our potential return and to avoid situations that can destroy our investment value down the road. We are known for not pursuing predatory terms; we see ourselves as true partners to the management team, and we do not choose to start that partnering relationship from an adversarial position.

We usually structure our investment as the purchase of convertible preferred equity. The Preferred shares typically have specific rights, including dividends, liquidation

preference, redemption, anti-dilution protection, pre-emptive rights, registration, conversion, and board representation. There are usually certain protective covenants giving the Preferred additional control over the company's operation. Our investment terms usually also specify restrictions on management's Common stock, including a vesting schedule, right of first refusal, right of co-sale, as well as employment and intellectual property agreements.

❖ Board Representation

We generally seek at least one seat on each portfolio company's board of directors; we usually serve on one or more board committees as well. Our representative is chosen based on the most efficient use of industry experience, business strength, and value-added networking opportunities. Particularly in smaller companies, our history confirms that our influence over strategy and operations can significantly improve a company's performance. If performance does not meet expectations, a board seat is the best vehicle from which to launch a change in management, which we have had to do several times.

We expect to have weekly contact with our portfolio companies, and we are an instrumental part of growing their businesses. We do not, however, engage in any consulting arrangements or serve in any active management roles (other than interim management roles in rare circumstances).

❖ Span of Control

Based on our experience, we believe that one of the sources for trouble within a venture investment firm is when principals spread themselves too thinly. At EGL, we take our board responsibilities seriously. We are very active in corporate governance and in supporting the management team of each portfolio company through coaching and mentoring. This means that our interactions with the company are far more frequent than a monthly or quarterly board meeting.

It is impossible to maintain this level of active involvement with a dozen companies. We believe that the optimum span of control is 4 to 6 board seats per Principal. We assign a secondary investment professional (Principal or senior associate) to each portfolio company, assisting the primary professional when there are unavoidable schedule conflicts.

Based on our experience, we have modeled how we expect to invest EGL-IV, and the results are consistent with our span of control limitations. In a hypothetical portfolio of two dozen companies, we would invest approximately half of our capital in later-stage companies, with the balance split evenly between seed-stage and early-stage opportunities. (Over half of the companies would be in early-stage, but less than half of the dollars, due to infant mortality among seed-stage investments.) Given a

plausible investment pace, our span of control would peak at 13 active investments in year 4, which should be well within the capabilities of three Principals.

❖ Oversight

As detailed in Sections III and IV of this document, each of the EGL Principals have substantial operational experience as well as investment experience with a total of 31 venture-backed companies. We understand how quickly a growth company can diverge from its plans, and how expensive such detours can be.

From each of our portfolio companies, our terms of investment specify certain information requirements, including:

- (a) regular monthly, quarterly, and annual financial statements, including income statement, balance sheet, and statement of cash flows,
- (b) audited financial statements subsequent to year-end,
- (c) an annual budget at least two months prior to the start of that fiscal year,
- (d) a monthly dashboard overview of the company's financial situation,
- (e) detailed monthly or bi-monthly sales reports showing new customers, salesperson productivity, and the sales pipeline, and
- (f) monthly or bi-monthly charts and timelines detailing product development.

At the same time, we realize that not all challenges can be quantified in financial statements. Our oversight of the company can include detailed product reviews, recruiting of key management, discussions with potential corporate partners, and even participation in sales calls and trade shows.

We know that each investment will encounter unpleasant surprises. Our goal is to uncover those surprises as soon as possible, before a solution becomes impossibly expensive.

❖ Follow-on Investments

Our overriding question when making a follow-on investment is: “Would this investment make sense if we were putting money into the company for the first time?” Our primary concern is to avoid investing good money to protect a poor investment. We want to see that the company has achieved its milestones (e.g., product development, customer acquisition, financial hurdles, etc.) as set forth at the time of the initial investment. We also think carefully about the management team and its performance.

There are always, of course, mitigating factors. Once we have invested in a company, we expect to act as strong proponents and to invest in subsequent rounds of financing—even in difficult times—unless we believe it would be unwise to do so. Our experience has shown that every company will go through ups and downs along the road to success. We continuously monitor each company’s performance and make regular determinations about the need to set aside reserves for future financings.

The level of our investment in any follow-on round is generally dictated by the size of the round and how many new investors are at the table. At the very least, our aim is to invest our *pro rata* amount in a follow-on round to avoid dilution. If a company is performing particularly well, and valuation is still attractive to us, we may look to invest above our *pro rata* amount, keeping in mind our individual company investment limit and the need, if applicable, for subsequent rounds.

❖ Exit Strategy

One of the built-in tensions in any board relationship is that, as financial investors, we remain focused on an exit strategy. We have extensive experience in assisting companies to achieve successful liquidity events. We have historically sought to fully realize the value of companies by identifying the exit opportunity that maximizes the current value of the investment, as well as the growth potential still inherent in the enterprise. The timing and likelihood of an exit event will vary based upon a company’s specific performance in relation to its plan and upon financial market conditions.

Exit Management

There are several key opportunities for private-equity investors to directly affect the performance of individual investments. As detailed above, at the closing of a new investment, EGL’s standard terms are designed to optimize returns by defining a Preferred security with certain liquidation, dividend, and redemption rights. These rights can provide a return on investment for companies that, for whatever reason, are not suitable for a trade sale or a public offering.

❖ Trade Sales

At EGL, we have had great success with trade sales—mergers or acquisitions by larger, typically public, companies. Since we have each had operational responsibility at large corporations, we can often act as a bridge, communicating successfully with both sides of the transaction. Fifteen of our 31 investments have been purchased in trade sales, including some that have generated our highest returns. In several cases, the EGL partner on the board has strongly influenced management and other board members to take an attractive trade sale opportunity rather than hold out for the ever-receding bonanza of an IPO.

❖ IPOs

We have been involved in four initial public offerings and two secondary offerings. For some companies, tapping the public appetite for small high-growth equity is the most efficient path to obtaining the financial wherewithal for continued growth. EGL's Principals have served on public boards, and we understand the promises and the pitfalls of the IPO process.

We are concerned about the impact of Sarbanes-Oxley and the new FASB guidelines for expensing employee option grants. In the long term, these measures will probably prove to be inappropriate for small companies. However, it is likely that compliance with these measures will reduce the ability of small companies to go public. During the projected term of EGL-IV, we expect that trade sales will continue to represent the most attractive path to liquidity for most of our investments.

❖ Distributions

Public securities represent a temptation to any private equity firm. At EGL, we resist that temptation. We do not try to time the markets with public securities, whether after an IPO or after a stock transaction with a public company. We do not believe that our limited partners have hired us to be microcap mutual fund managers. Once a stock is freely tradeable and—in the opinion of the Principals—sufficiently liquid to withstand the appearance of our shares on the public market, we distribute those shares to our limited partners. At that point, the venture value-creation opportunity is over. We would rather focus our efforts on other opportunities, and let our limited partners make their own decisions regarding selling, hedging, or holding those securities.

Section VIII. Terms of the Offering

The following is a summary of certain information about the Partnership and the Interests. This overview is qualified in its entirety by reference to the Partnership's Agreement of Limited Partnership (the "Partnership Agreement"). The Partnership Agreement will be provided to investors prior to closing.

- The Partnership*** EGL Ventures IV, LP (the "Partnership" or the "Fund") is a Delaware limited partnership, organized for the purpose of purchasing private equity securities of companies engaged in information technology, telecommunications, and healthcare in the Southeast United States. The Fund's objective is significant long-term capital appreciation.
- General Partner*** EGL Ventures IV GP, LLC, a Delaware limited liability company, will serve as the sole general partner (the "General Partner") of the Partnership, with the exclusive right and power to manage and operate the Fund. The General Partner's capital commitment to the Fund will equal 1% of the total capital commitments of all partners to the Fund. (The individual members of the General Partner may be referred to in this document as the "Principals.")
- Limited Partners*** The limited partners of the Fund ("Limited Partners") will be the subscribers for the Interests. (The General Partner and the Limited Partners are hereinafter referred to collectively as the "Partners.")
- Offering*** The Partnership is offering, in a private placement, an aggregate of \$100 million of Limited Partnership Interests (the "Interests"), subject to increase or decrease at the discretion of the General Partner.
- Minimum Commitment*** The minimum commitment by an individual Limited Partner to the Fund will be \$500,000, and by an institutional Limited Partner will be \$3,000,000. The General Partner may, at its sole discretion, waive any such requirements.

- Closing*** An initial closing (the “Initial Closing”) will be held upon the commitment of a minimum of \$25 million of Interests from the Partners. The General Partner shall be authorized to admit additional Limited Partners to the Fund at any time and from time to time during the twelve-month period following the date of the initial closing. See “Admission of Additional Investors” below.
- Drawdown of Capital*** Each Limited Partner will be required to contribute 10% of its total capital commitment to the Partnership upon admission to the Partnership. Subsequent installments of capital commitments (“Capital Calls”) shall be made upon not less than 10 days’ prior notice from the General Partner.
- Term*** The term of the Partnership will be 10 years from the date of Initial Closing, subject to extension at the election of the General Partner for up to three additional one-year terms.
- Investment Period*** The General Partner intends to make all initial investments in portfolio companies during an Investment Period of five years from the date of first closing. The Investment Period will be automatically extended to complete transactions that were in process as such date. Additional follow-on investments may be made into existing portfolio companies at any time up until the termination of the Partnership.
- Investment Restrictions*** The Partnership will invest in equity—or securities convertible to equity—in private companies located in the United States. The Fund will not make investments in publicly-traded securities without the approval of the Advisory Committee.
- Diversification*** The Partnership does not expect to invest greater than 10% of the total capital commitments of the Partners to the Partnership (the “Commitments”) in any single portfolio company. The Fund may make portfolio company investments prior to the final closing date that are based on a good faith determination that such investments will not violate the 10% investment limitation of the preceding sentence, and neither the

Fund nor the General Partner will be liable if the 10% investment limitation is as a result violated.

Limited Reinvestment

Proceeds from the disposition of investments will not be subject to reinvestment except (i) to the extent necessary to enable the Fund to invest 100% of capital commitments, and (ii) for capital contributions used to fund an investment that is disposed of within 12 months after the investment was made.

Investment Decisions

The General Partner will make all investment decisions.

Advisory Committee

The Fund will establish an Advisory Committee, which will meet at least annually. The voting members of the Advisory Committee will be required (i) to review and approve certain valuations of Partnership assets proposed by the General Partner; (ii) at the request of the General Partner, to resolve any conflicts of interest between the General Partner and/or its affiliates, on the one hand, and the Partnership and/or the Limited Partners on the other hand; and (iii) at the request of the General Partner, to consult with the General Partner regarding other issues involving the Partnership and the conduct of its business.

Any Limited Partner subscribing for \$10 million or more in Interests shall have the right to appoint one voting member of the Advisory Committee. Other voting and non-voting members of the Advisory Committee shall be selected by the General Partner, which shall have the power to remove or replace these members at any time.

A majority of the voting members of the Advisory Committee shall be officers, directors, employees, or representatives of the Limited Partners, provided that no voting member of the Advisory Committee shall be affiliated with the General Partner.

Co-Investment Policy

The General Partner may, in its discretion, provide co-investment opportunities in portfolio companies to Limited Partners and members of the Advisory Committee.

Capital Accounts

A capital account will be established for each Limited Partner and the General Partner (collectively, the “Partners” and each a “Partner”), which will be (i) increased by capital contributions made by that Partner to the Fund (“Capital Contributions”) and income and gain of the Fund allocated to that Partner, and (ii) decreased by Fund losses allocated to such Partner, and any distributions made to such Partner, and otherwise adjusted in accordance with applicable IRS regulations. Profits and losses for tax purposes shall be allocated in a manner intended to give effect to the distributions described herein.

Timing of Distributions

The General Partner may, in its discretion, cause the Fund to distribute cash or marketable securities. If the General Partner makes a distribution of marketable securities, then the price of such marketable security for purposes of calculating carried interest will be the average closing price of such security for the 5 days prior to such distribution. The General Partner anticipates staging the distribution of marketable securities to allow for an orderly liquidation of the security by the Limited Partners.

Distributions prior to the termination of the Fund will generally consist of cash or marketable securities. Upon termination of the Fund, distributions may also include restricted securities and other assets of the Fund.

The General Partner will be entitled to withhold from any distributions amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Partnership, including but not limited to indemnification and any required tax withholdings.

Distributions among the General Partner and the Limited Partners

Distributions to the General Partner and the Limited Partners, will be distributed in the following order of priority:

- (a) *Return of Capital Contribution.* 100% to all Partners in proportion to their respective Commitments until each Partner has received aggregate distributions equal to its capital contribution. The total amount of the distributions due pursuant to this paragraph (a) is herein referred to as the “Initial Distribution Tier”;
- (b) *80/20 Split.* Thereafter, 80% to all Partners in proportion to their respective Commitments and 20% to the General Partner (the “Carried Interest”), but not to any Partner in excess of the positive balance in the Partner’s Capital Account.
- (c) *Capital Account Test.* To the extent that the value of the Limited Partners’ capital accounts (plus the sum of investment distributions previously distributed to Limited Partners) is at least 125% of the Limited Partners’ aggregate capital contributions, the Initial Distribution Tier above shall be modified such that distributions to the Limited Partners and the General Partner will be made in the ratio of the value of their respective capital accounts.

Tax Distributions

The Partnership will make cash distributions to each Partner in an amount sufficient to pay federal, state and local income taxes attributable to such Partner’s ownership interest.

Clawback

Upon termination of the Partnership, in the event the General Partner has received, over the life of the Partnership, an amount in excess of the aggregate Carried Interest to which it is entitled, the General Partner will be required to restore funds to the Partnership for the benefit of the Partners. The General Partners’ liability hereunder shall be limited to the lesser

of: (i) the amount of such excess; and (ii) the amount of Carried Interest actually received after deducting the General Partner's income tax and other liabilities.

Removal of the General Partner

Subject to compliance with any applicable law, the General Partner may be removed by 75% in interest of the Limited Partners in the event of certain breaches by and other circumstances involving the General Partner. Upon such removal, the General Partner will become a Limited Partner and the Partnership will no longer be liable to the Management Company for the Management Fee.

Borrowing

The General Partner will not borrow funds on behalf of the Partnership except with regard to amounts borrowed on an unsecured basis for less than 180 days to satisfy short-term needs of the Partnership.

Management Fee

EGL Ventures IV, Inc. (the "Management Company"), will provide management services to the Fund, and will be entitled to a management fee in respect of such services (the "Management Fee"). The annual Management Fee will be 2.5% of the Commitments, for the first five years of Fund operation, subject to reduction by 10% per year thereafter. Such management fee shall be payable in quarterly installments, in advance.

Other Fees

In connection with the Fund's activities, the General Partner and/or the Management Company may receive customary fees from or with regard to its portfolio companies. The amount of any such fees collected by the General Partner or its affiliates in connection with the Partnership's investments will be applied first, 100% to reimburse the Partnership for all costs and expenses not previously reimbursed to the extent incurred by it in connection with any unconsummated transaction; thereafter, 80% of such fees shall reduce the Management Fee for the quarter immediately succeeding the quarter in which the fee was received by the General Partner or its affiliates. In the event that the amount of fees to be applied against the Management Fee exceeds the Management Fee for the immediately

succeeding quarter, such excess will be carried forward to reduce the Management Fee payable in following quarters.

Expenses

The General Partner will assume responsibility for all ordinary operational expenses of the Fund after its organization and closing, including salaries, rent, and travel for the members of the Management Company. The Fund will bear costs and expenses which are not reimbursed by portfolio companies, including Fund administration, legal, auditing, tax, consulting, financial, and accounting fees and expenses; out-of-pocket expenses for transactions not consummated; other expenses associated with the acquisition, holding, and disposition of the Fund's investments; costs associated with third-party technical consultants; extraordinary expenses, including litigation costs (expenses and damages); and any taxes, fees, or other governmental charges levied against the Fund.

Each Limited Partner will be solely responsible for its own legal and tax counsel expense and any out-of-pocket and other expenses incurred in connection with the organization of, its admission to, or the maintenance of its Interest in the Partnership.

Organizational and Offering Costs

Organizational and offering costs, including legal, accounting, tax, capital raising, and certain consulting fees, as well as out-of-pocket expenses, will be paid directly by the Fund in an amount equal to the greater of (i) 1% of the Commitments or (ii) \$500,000.

Organizational and offering expenses in excess of such amount will be borne by the General Partner and will be treated as satisfying an equivalent amount of its Commitment to the Fund.

Partnership Expenses

Partnership Expenses include (i) expenses associated with the organization of the General Partner or the Fund; (ii) legal, accounting, tax, audit, custodial and other professional fees; (iii) banking, brokerage, broken-deal, registration and similar fees and commissions; (iv) transfer, capital or other taxes, duties and costs incurred in acquiring, holding or selling Partnership

assets; (v) insurance premiums, indemnification, and litigation costs; (vi) costs of financial statements, reports and filings; (vii) interest expenses; (viii) management and consulting fees, (ix) other expenses that are not normal operating expenses of the General Partner, including capital raising costs and fees, if any, (x) expenses of the Advisory Committee, and (xi) all costs and expenses incurred in the purchase, holding, sale or exchange of Securities and reimbursement of all out-of-pocket costs and third-party expenses paid in connection with proposed transactions that are not consummated.

New Funds

Unless consented to by at least a majority in Interests of the Limited Partners, the Principals will not organize an equity fund with substantially the same investment objectives as the Fund until the earlier of: (i) the end of the Investment Period; (ii) the date on which at least two-thirds of the aggregate Commitments have been invested, committed for investment, allocated for investment, or reserved for Partnership Expenses.

Admission of Additional Investors

During the twelve-month period commencing on the Initial Closing, the Partnership may admit additional Limited Partners. Before the existing Partners are required to make additional capital contributions following the admission of an additional Limited Partner, the additional Limited Partner will be required to contribute to the Partnership its *pro rata* share of each capital contribution previously funded by the other Limited Partners *plus* interest thereon at a rate equal to the prime rate plus two percent (2%) per annum and calculated from the date on which each of such previous contributions were funded to but excluding the date on which the additional Limited Partner is admitted to the Partnership. The interest component will be an obligation of the additional Limited Partner that is in addition to its Commitment. The interest component will not be treated as a capital contribution under the Limited Partnership Agreement.

Default

Upon any failure of a Limited Partner to contribute any portion of its capital commitment when called for by the General Partner, such Limited Partner will be in default. Any defaulting Limited Partner will lose its right to vote on any matter and will be subject to penalties, including interest payments at the rate of 18% per annum (or, if lower, the highest rate permitted by law), and possible forfeiture of all or a portion of its capital account and interest in the Fund.

Restrictions on Transfer

Limited partnership interests in the Fund are subject to restrictions on transfer, including (i) the consent of the General Partner, which the General Partner may grant in its sole discretion, (ii) restrictions imposed by state and Federal securities laws. There currently is no public market for the Interests, and no market is expected to develop.

ERISA

Investment in the Fund is generally open to institutions including pension and other funds subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). The Fund may limit the total capital commitments from benefit plan investors. Depending on the amount of capital commitments from benefit plan investors, the General Partner may operate the Fund in a manner intended to qualify as a “venture capital operating company (VCOC)” within the meaning of U.S. Department of Labor regulations, so that the assets of the Fund will not be considered “plan assets” under ERISA.

Foreign Partner Considerations

The Fund intends, to the extent possible, to operate in such a manner that it is not engaged in a trade or business in the United States for purposes of U.S. income tax withholding requirements for foreign investors.

In addition, in order to address certain tax or other regulatory considerations, or to facilitate investments by foreign investors, the General Partner may create parallel investment entities which will invest with the Fund (in proportion to their respective available capital commitments) in all transactions on effectively the same terms and conditions as the Partnership.

Reporting

The Fund will provide to the Partners on an annual basis an audited balance sheet and financial statements, information required for income tax reporting purposes, an annual review of the performance of the Fund's portfolio companies and for informational purposes only, the General Partner's valuation of the Fund's portfolio securities.

The Fund will also provide unaudited financial information for the Fund on a quarterly basis as well as a review of the performance of the Fund's portfolio companies and for informational purposes only, the General Partner's valuation of the Fund's portfolio securities. The Fund's fiscal year will end on December 31.

Suitability Standards

Interests in the Fund will be offered to Accredited Investors only, in a private placement intended to comply with Regulation D or Regulation S promulgated under the Securities Act of 1933, as amended. Investors must demonstrate sophistication and/or prior experience with investments of this nature. In addition, the Fund will be structured so that it will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended. Investors will be required to make representations to the Fund to ensure compliance with such securities laws.

Indemnification

The General Partner, members of the Advisory Committee, and any person who serves on the board of a portfolio company (or in a similar capacity) on behalf of the Fund at the request of the General Partner, and such persons' respective partners, members, officers, and agents, including the Principals (each an "Indemnitee") will not be liable to the Fund or to the Partners for any loss suffered by the Fund which arises out of any act performed or omission unless such course of conduct constituted fraud, willful misconduct or gross negligence.

The Fund will indemnify each Indemnitee for any loss, damage, or expense incurred by such Indemnitee on behalf of the Fund or in furthering the interests of the members, or otherwise arising in connection with the business of the Fund, except to the extent arising from such Indemnitee's own fraud, willful misconduct or gross negligence. Any indemnity payable by the Fund shall be paid from, and only to the extent of, Fund assets (including member capital contributions and unfunded capital commitments), and no member shall have any personal liability on account thereof.

The Fund is permitted to incur the cost of any insurance for the Indemnitees, regardless of whether such insurance insures any party against any liability as to which such party is prohibited from being indemnified as described above.

Appendix A. Risk Factors

General

Venture capital investing involves a high degree of business and financial risk that can result in substantial losses. In order for the Partnership to succeed, it must be able to accurately identify potentially successful enterprises, a process which is difficult even for those with extensive experience in the venture capital field. Portfolio companies may be operating at a loss or with substantial variations in operating results from period to period and may need substantial additional capital to support expansion or to achieve or maintain a competitive position.

Investment in the Partnership is highly speculative, involves a high degree of risk and could result in the loss of part or all of an investor's capital contribution. Therefore, prospective investors should not subscribe for Interests unless they can bear such a loss. Moreover, there can be no assurance that the Partnership's investment objectives will be achieved and investment results may vary materially from one reporting period to the next. Consequently, an investment in the Partnership is suitable only for sophisticated investors who are capable of making an informed independent decision as to the risks involved in an investment in the Partnership. Potential risk factors to consider prior to making an investment in the Partnership include but are not limited to the factors discussed below.

❖ Newly Organized Management Team

The three members of the General Partner have not managed a fund together and the *pro forma* combined results in this Memorandum do not represent the performance actually achieved by any prior fund or the results obtained by any limited partner. Thus, the performance ultimately achieved by this Fund may be materially lower than this *pro forma* performance. As is the case with all investment funds, past performance cannot guarantee future results.

❖ Limited Operating History, No Assurance of Actual Returns

Although the members of the General Partner have extensive backgrounds in private equity investing, the Partnership is a new entity and there can be no assurance that one or more investments made on behalf of the Partnership will not result in losses. Although members of the General Partner have demonstrated their ability as private equity investors in the past, there can be no assurance that the Partnership will experience the same level of returns and there can be no assurance that the Partnership will not result in losses.

❖ Nature of Investments

The portfolio companies in which the Partnership will invest are likely to face intense competition, including competition from companies with greater financial resources, more extensive development, production, marketing and service capabilities and a larger number of qualified managerial and technical personnel. There can be no assurance that the development or marketing efforts of any particular portfolio company will be successful or that its business will be profitable.

◆ ***Company Vulnerabilities***

The portfolio companies may also be unseasoned, unprofitable or have no established operating history or earnings and may lack technical, marketing, financial and other resources. These companies may be dependent upon the success of one product or service, a unique distribution channel, or the effectiveness of its manager or management team. The failure of this one product, service or distribution channel, or the loss or ineffectiveness of a key executive or executives within the management team may have a materially adverse impact on such companies. Furthermore, these companies may be more vulnerable to competition and to overall economic conditions than larger, more established entities.

◆ ***Start-up Risks***

Although the Partnership expects most of its investments will be made in companies with existing operations, it may invest at earlier stages, including the start-up stage. Particularly in early-stage enterprises, a major risk exists that a proposed service or product cannot be developed successfully with the resources available to the portfolio company. There is no assurance that the development efforts of any portfolio company will be successful or, if successful, will be completed within the budget or time period originally estimated. The services and products may also be subject to a high degree of technical obsolescence. There is no assurance that any portfolio company can successfully develop future generations of its services or products. Additional funds may be necessary to complete such development, and there is no assurance that such funds will be available from any particular source.

◆ ***Requirements for Follow-on Investments***

Following its initial investment in portfolio companies, the Partnership anticipates that portfolio companies may require additional funding, and that the Partnership may have the opportunity to increase its investment in successful portfolio companies. There can be no assurance that the Partnership will make follow-on investments or that the Partnership will have sufficient funds to make all such investments. Any decision by the Partnership not to make follow-on investments, or its inability to make them, may have a substantial adverse effect on a portfolio company in need of such an investment or may result in a missed opportunity for the Partnership to increase its participation in a successful enterprise, or may cause a decrease in the value of the Partnership's portfolio.

◆ ***Debt Service Obligations***

The Partnership may invest in portfolio companies that employ significant debt, as a way of improving the Partnership's investment rate of return, or reducing the overall cost of such portfolio company's capital. Such use of debt would increase a portfolio company's exposure to risks of increasing interest rates, and may affect its operating performance and cash flow. To the extent that a portfolio company is unable to generate sufficient cash flow to meet its debt service obligations, the value of the Partnership's investment in such portfolio company could be significantly reduced or lost altogether.

◆ ***Reliance Upon Portfolio Company Management***

Although the General Partner may seek representation on the board of directors of each of the portfolio companies, the Partnership will not have an active role in the day-to-day management of the companies in which it invests. To the extent that the senior management

of a portfolio company performs poorly, or if a key manager terminates employment, the Partnership's investment in such company could be adversely affected.

◆ **Lack of Control**

The Partnership generally will seek to structure investments so that the Partnership will have some level of control over portfolio companies, at least as to major corporate decisions. However, the Partnership expects that it will hold minority interests in most companies and, therefore, may have limited ability to protect its position and investment. Generally, as a condition to any investment, the Partnership will seek to obtain special rights and protective provisions, which will be negotiated at the time of the investment. There can be no assurance that the Partnership will be able to obtain such protective provisions, or that if such provisions are obtained, that they will be effective.

❖ **Risks of Certain Investments**

In connection with the disposition of an investment in a portfolio company, the Partnership may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. It may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Limited Partners to the extent of their Commitments or previous distributions made to them.

❖ **Competition for Investments**

The Partnership expects to encounter competition from other entities having investment objectives similar to the Partnership's. Historically, the primary competition for venture capital investments has been from venture capital partnerships and corporations, venture capital affiliates of large industrial companies, wealthy individuals and foreign investors. Additional competition is anticipated from industrial and financial companies investing directly, rather than through venture capital entities. The Partnership may co-invest with other professional venture capital investors, and these relationships with other investors may expand the Partnership's access to investment opportunities. However, there is no assurance that the Partnership will succeed in finding investments on similar or favorable terms in comparison to its competitors.

❖ **Difficulty of Locating Suitable Investments**

Although the members of the General Partner have been successful in identifying suitable investments in the past, they may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The past investment performance of the members of the General Partner cannot be relied on as an indicator of the Partnership's future performance or success. An investor in the Partnership must rely on the ability of the General Partner to identify, structure and implement investments consistent with the Partnership's objectives and policies. Investors in the Partnership will not have the opportunity to evaluate the business, financial and other information which will be used by the General Partner in its analysis, selection and monitoring of portfolio company investments for the Partnership. There can be no assurance that the General Partner will be

able to identify a sufficient number of attractive investment opportunities to invest fully the Partnership's committed capital.

❖ **Conflicts of Interest**

The General Partner will be entitled to receive 20% of all capital appreciation of the Partnership's assets, notwithstanding the fact that it has committed to providing only 1% of the Partnership's capital. The General Partner may have an incentive to invest the Partnership's capital in higher risk ventures designed to create higher returns than would be acceptable to the Limited Partners. Conflicts of interest may thus arise between the Limited Partners and the General Partner and its rights to distributions from the Partnership.

The Principals or persons associated with them may come into possession of material, non-public information that may restrict the ability of the Partnership to purchase or sell interests in its portfolio companies due to federal or state securities laws considerations. Such a situation could arise if a representative of the Partnership serves on the board of directors or in some other advisory capacity with a portfolio company. Additionally, the principals will not be precluded from engaging in existing business and investment activities or in other future business activities, some of which could create conflicts of interest with respect to the Partnership's portfolio companies.

❖ **Restrictions on Transfer and Withdrawal**

The Interests have not been registered under the Securities Act or any other applicable securities laws. There will be no public market for the Interests. In addition, the Interests are not transferable except with the consent of the General Partner, which may be withheld in its sole and absolute discretion. Limited Partners may not withdraw capital from the Partnership. Consequently, investors may not be able to liquidate their investments prior to the end of the Partnership's term.

❖ **Risks Related to the Structure of the Partnership**

Certain risks are related to the structure of the Fund as a limited partnership:

◆ *Dependence on the General Partner and Key Personnel*

The General Partner's ability to manage successfully the Partnership's affairs depends on the Principals. The loss of any one of these individuals could have a significant adverse impact on the business of the Partnership. There can be no assurance that these individuals will remain in the employ of the Partnership, or otherwise continue to be able to carry on their current duties throughout the term of the Partnership.

◆ *Potential Costs Associated with Indemnification*

The General Partner, the investment manager and their respective members, agents, representatives, affiliates and personnel will be entitled to indemnification from the Partnership, except in certain circumstances. The assets of the Partnership will be available to satisfy these indemnification obligations, and the Limited Partners may be required to return distributions to satisfy such obligations. Such obligations will survive dissolution of the Partnership.

◆ ***No Right to Control the Partnership's Operations***

The management, financing, and disposition policies of the Partnership and its policies with respect to certain other activities, including its distributions and operating policies, are determined by the General Partner. These policies may be changed from time to time at the discretion of the General Partner without a vote of the Limited Partners of the Partnership, although the General Partner has no present intention to make any such changes. No assurance can be given that such a change would not be adverse to the interests of the Limited Partners.

◆ ***Absence of Recourse to the General Partner***

There are very limited circumstances under which the General Partner can be held liable to the Partnership. Generally, the General Partner is not liable to the Partnership provided it has acted (i) in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the Partnership, (ii) with respect to any criminal matter, with no reasonable cause to believe its conduct was unlawful, and (iii) without gross negligence, fraud, willful misconduct, or in material breach of the Limited Partnership Agreement. The General Partner is also entitled to advancement of expenses from the Partnership prior to a final determination upon a representation that it has met the applicable standard of care and an undertaking to repay. Accordingly, it may be very difficult for the Partnership or the Limited Partners to pursue any form of action against the General Partner.

◆ ***Consequences of Default by Limited Partners***

In the event that a Limited Partner fails to fund any of its Commitment when required, such Limited Partner's Limited Partnership Interests may be reduced, and such Limited Partner may be precluded from further investment in the Partnership.

◆ ***Illiquidity***

Investment in the Partnership requires a long-term commitment, with no certainty of return. The Partnership does not expect to generate cash flow to the Limited Partners in the near-term. Most of the Partnership's investments will be highly illiquid and there can be no assurance that the Partnership will be able to realize on such investments in a timely manner, if at all. Dispositions of such investments may require a lengthy time period or may result in distributions in kind to the Partners. The Partnership will invest in securities of privately held companies, which are not traded on any organized exchange or on the NASDAQ National Market, making the timing and ability to liquidate these securities uncertain. This illiquidity may result in an inability to sell these securities at all. Generally, the Partnership will not be able to sell these securities publicly without the expense and time required to register them under the Securities Act, or will be able to sell the securities only under Rule 144 or other rules under the Securities Act which permit only limited sales under specified conditions. The securities in which the Partnership will invest may be the most junior in what will typically be a complex capital structure, and thus subject to the greatest risk of loss. Since the Partnership may only make a limited number of investments and since the Partnership investments generally will involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to Limited Partners.

❖ Securities Law Matters

The Interests are not and will not be registered under the Securities Act, or any other securities laws, including state securities or blue sky laws. The Interests will only be offered and sold to Accredited Investors as defined in Regulation D promulgated under the Securities Act. Interests will be offered without registration in reliance upon the Securities Act exemption for transactions not involving a public offering. Investors will be required to make certain representations to the Partnership, including that they are acquiring an Interest for their own account, for investment purposes only and not with a view to its distribution. The Partnership will not register as an investment company under the Investment Company Act of 1940 and the General Partner will not be registered as an investment adviser under the Investment Adviser Act of 1940 or under any state securities or blue sky laws.

Appendix B. Legal and Other Considerations

Certain Tax Considerations

The following is a summary of certain U.S. federal income tax considerations relating to an investment in the Fund and does not purport to address all of the U.S. federal income tax consequences that may be applicable to any particular limited partner. It is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, court decisions and administrative rulings and pronouncements in effect as of the date of this Memorandum, all of which are subject to change, including with retroactive effect. U.S. federal income tax consequences of partnerships and partners are extremely complex.

All prospective investors are urged to consult their own tax advisers about the U.S. federal, state, local and other tax consequences’ and filing requirements of purchasing and holding limited partnership interests in the Fund, including any special consequences applicable to foreign investors, pension or benefit plans, governmental entities, insurance companies and organizations exempt from U.S. federal income taxation.

❖ **Partnership Status**

The Fund has been advised by counsel that under the existing provisions of the Code, Treasury Regulations, court decisions and administrative rulings and pronouncements in effect as of the date of this Memorandum, the Fund will be classified as a partnership, and not an association taxable as a corporation, for U.S. federal income tax purposes, and the Fund will not be a “publicly traded partnership” within the meaning of Section 7704 of the Code.

No ruling has been or will be requested from the Internal Revenue Service (the “Service”) with respect to the foregoing legal advice. No assurance can be given that the Service or the courts will concur with the foregoing legal advice or the discussion of the tax consequences set forth below. The advice of the Fund’s counsel and the statements which follow are based upon the provisions of the Fund’s Limited Partnership Agreement (the “Partnership Agreement”) as it will be in effect at the closing and representations made by the General Partner to its legal counsel. Any subsequent change in the provisions of the Partnership Agreement or the Fund’s activities could affect the conclusions expressed in such opinion or such statements. No assurance can be given that current tax laws, rulings and regulations will not be changed during the term of the Fund, and any such change could affect the conclusions expressed in this Memorandum or in the legal opinion referred to above.

A partnership, as an entity, is generally not subject to U.S. federal income tax. The Fund will, however, file a federal partnership information return reporting its operations for each calendar year. Each partner that is subject to U.S. federal income tax will be required to take into account on its federal income tax or information return its allocable share of the Fund’s income, gains, losses, deductions and credits for the Fund’s taxable year ending within or with such partner’s taxable year, whether or not cash or other property are distributed to such partner. For U.S. federal income tax purposes, a partner’s allocable shares of the Fund’s items of income, gain, loss, deduction and credit will be governed by the

Partnership Agreement if such allocations have “substantial economic effect” or are determined to be in accordance with such partner’s interests in the Fund. The General Partner believes that, for U.S. federal income tax purposes, such allocations should be given effect. If the allocations made pursuant to the Partnership Agreement were successfully challenged by the Service, the re-determination of the allocations to a particular partner for U.S. federal income tax purposes may be less favorable than the allocations set forth in the Partnership Agreement.

If the Fund were not treated as a partnership for U.S. federal income tax purposes, but as an association taxable as a corporation, (i) its net income and gains (including unrealized gains on portfolio securities distributed to the partners) would be taxable to the Fund and not to the Partners and (ii) distributions to the partners would be treated as dividends to the extent of current or accumulated earnings and profits. If the Fund were treated as a “publicly traded partnership”, then it would be taxable as a corporation unless 90 percent or more of its gross income for each taxable year consists of “qualifying income” including interest, dividends and gain from the sale of capital assets. It is anticipated that substantially all of the Fund’s income will be “qualifying income.”

❖ Election to Adjust Basis of Partnership Assets

Under Section 754 of the Code, a partnership may make an election to adjust the basis of the partnership’s assets in the event of a distribution of partnership property to a partner, or a transfer of a partnership interest. Depending upon the particular facts at the time of any such event, such an election could either increase or decrease the value of a partnership interest to the transferee because the election would increase or decrease the basis of the partnership’s assets for the purpose of computing the transferee’s allocable share of partnership income, gains, deductions and losses. The Partnership Agreement for the Fund will authorize the General Partner to make such an election. However, there can be no assurance that the General Partner will make such an election in the future because (1) the election, once made, cannot be revoked without obtaining the consent of the Commissioner of the Service, (2) the election may not necessarily be advantageous to all limited partners, and (3) accounting complexities result from having such an election in effect.

❖ No Tax Benefits Expected / Limitations on the Deductibility of Certain Losses and Expenses

Because it is expected that an investment in the Fund will not reduce the cumulative tax liability of an investor in any year as a result of tax losses, deductions, or credits, investors should not invest in the Fund with the expectation of receiving any such tax benefits. Because the Fund’s investments are expected, in general, to be “portfolio” investments, individuals and certain other persons may be limited in their ability to offset income from the Fund with losses from certain investments or activities. Individuals (including individuals holding through pass-through vehicles) may be limited in their ability to deduct their allocable share of management fees and certain other Fund expenses because miscellaneous itemized expenses are deductible only to the extent they exceed 2% of an individual’s adjusted gross income. Furthermore, deductibility by a partner that is an individual or other non-corporate taxpayer of interest paid or accrued on indebtedness

properly allocated to property held for investment, other than a passive activity generally is limited to the extent of the partner's net investment income.

❖ Tax Liabilities in Excess of Distributions

Due to potential timing differences between income recognition for tax purposes and actual distributions of cash and/or securities, it is possible that a partner may incur U.S. federal income tax liabilities in excess of actual distributions made prior to the date the liability arises or the tax is due. In addition, it is possible that, for U.S. federal income tax purposes, income or gain will be allocated to the partners with respect to cash distributions that are treated as a return of invested capital under the Partnership Agreement's distribution provisions.

❖ Certain Considerations for Tax-Exempt Investors

If an entity that is exempt from taxation pursuant to Section 501 of the Code (a "tax-exempt entity") is a partner in a partnership, the tax-exempt entity's allocable share of the income from such activities may nonetheless constitute "unrelated business taxable income" ("UBTI") subject to tax as discussed below. A tax-exempt entity may realize UBTI if the partnership regularly carries on a trade or business which is unrelated to the entity's exempt purposes, and derives income or gain from such trade or business. In addition, if a tax-exempt entity acquires its interests in the Partnership with borrowed funds or if it is a partner in a partnership that owns property acquired with borrowed funds, a portion of the tax-exempt entity's share of partnership income (including dividends, interest, royalties, rent and capital gains) attributable to such property may constitute UBTI. UBTI in the hands of a tax-exempt entity is subject to income taxes at the rates set forth under Section 511(a) of the Code after deductions related to the generation of such UBTI. The Fund does not intend to engage in any activities, which will result in the allocation to the Limited Partners of significant amounts of UBTI. Notwithstanding the foregoing, the Management Fees owed to the Management Company will be reduced by a portion of certain customary fees received by the Fund and/or the Management Company from or with regard to the Fund's portfolio companies. A tax-exempt investor could be treated as having received this portion of such fees and, if such fees were treated as regularly received by such tax-exempt investor, the tax-exempt investor's allocable share of such fees could be treated as UBTI.

❖ Certain Considerations for Non-U.S. Investors

The U.S. federal income tax treatment of a nonresident alien, foreign corporation, foreign partnership, foreign estate or foreign trust ("Non-U.S. investor") investing as a limited partner in the Fund is complex and will vary depending upon the circumstances of the limited partner and the activities of the Fund and the General Partner. Each non-U.S. investor is urged to consult with its own tax adviser regarding the federal, state, local and foreign tax treatment of its investment in the Fund.

In general, the U.S. federal income tax treatment of a non-U.S. investor will depend on whether the investor or the Fund is deemed to be engaged in a U.S. trade or business and whether income or gain in respect of the investor's investment in the Fund is effectively connected with such U.S. trade or business.

Given the investment nature of the activities of the Fund, the General Partner believes that the Fund should not be deemed to be engaged in a U.S. trade or business. In that case, assuming that a Non-U.S. investor is not otherwise engaged in a U.S. trade or business, the Non-U.S. investor's allocable share of the Fund's gain from the sale of portfolio securities and "portfolio" interest would generally not be subject to U.S. federal income taxation and the Fund would not generally be required to withhold tax on such gain and portfolio interest. However, the Fund would be required to withhold tax at the rate of 30% (or lower treaty rate, if applicable) on other interest, dividends and income, and special rules apply with respect to dispositions by the Fund of "United States real property interests," which can include stock in a corporation that primarily invests in real property. Even if the Fund were not otherwise engaged in a U.S. trade or business, it may nonetheless be engaged in a U.S. trade or business with respect to the activities undertaken by or on behalf of the Fund that generate certain customary fees which reduce the Management Fees as discussed above.

If the Fund were determined to be engaged in a U.S. trade or business, the income or gain effectively connected with such trade or business would be subject of U.S. federal taxation on a net basis. In such case, each non-U.S. investor would be obligated to file a U.S. income tax return reporting such income. Non-U.S. investors are urged to consult their own tax advisors about other potential consequences of being considered engaged in business in the U.S.

If there is sufficient demand from non-U.S. investors, the General Partner will consider establishing a parallel offshore entity that will co-invest with the Fund.

Appendix C. Suitability Standards

The Limited Partnership Interests offered hereby are suitable only for those investors: (a) whose business and investment experience, either alone or together with a purchaser representative, makes them capable of evaluating the merits and risks of their prospective investment in the Fund; and (b) who can afford to bear the economic risk of their investment for an indefinite period and have no need for liquidity in this investment.

The interests are being offered hereby without registration under the Securities Act by reason of one or more of the exemptions from the registration requirements contained in Section 4(2) thereof and Regulation D promulgated thereunder. Regulation D restricts both the number and nature of purchasers of securities offered pursuant thereto. To qualify as an exempt Regulation D offering, the Fund will sell interests only to investors who are accredited investors as that term is defined in Rule 501(a) of Regulation D (“Accredited Investors”).

Accredited Investors are those investors who meet at least one of the following standards:

- (1) Any bank as defined in section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; any insurance company as defined in Section 2(13) of the Securities Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- (2) Any private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940;
- (3) Any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- (4) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

- (5) Any natural person whose individual net worth or joint net worth with that person's spouse, at the time of his purchase exceeds \$1,000,000;
- (6) Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- (7) Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii); and
- (8) Any entity in which all of the equity owners are Accredited Investors.

Each investor will be required to represent that (i) he or she is acquiring the interest being purchased by him or her for his or her own account as principal, for investment and not with a view to resale or distribution, and (ii) he or she is aware that his or her transfer rights are restricted by the Securities Act and applicable state securities laws and by the Fund's limited partnership agreement. See "Restrictions on Transfer and Withdrawal" and "Securities Law Matters" in Appendix A.

If the Fund determines to rely on the exemption from the registration requirements of the Investment Company Act under Section 3(c)(7) of the Investment Company Act, it will only sell interests in the Fund to persons who qualify as "qualified purchasers." In general, (i) a natural person will be a "qualified purchaser" if he or she has \$5,000,000 or more of investments, (ii) a family-owned entity will be a "qualified purchaser" if it has \$5,000,000 or more of investments and (iii) a non-family owned entity will be a "qualified purchaser" if it has \$25,000,000 or more of investments.

Prospective investors will be required to complete a Subscription Agreement, in which they will be required to provide financial and other information sufficient for the Fund to determine that they qualify under the suitability standards described above and, where applicable, under the additional suitability standards applicable to investors in certain jurisdictions. The sale of interests to any prospective investor will be at the sole discretion of the General Partner.

Appendix D. Methodology

The *pro forma* investment performance set forth in Section V, **Performance**, and elsewhere in this Memorandum is based upon the following:

- The investments used in calculating *pro forma* investment results were sourced and managed by one or more of the Principals: David Ellis, Salvatore Massaro, or Stephen Fleming. As detailed in Section II, **Fund History**, Ellis and Massaro sourced and managed investments in the U.S. for MAM (EGL-I) and NatWest (EGL-II) and were principals of the EGL-III fund prior to the formation of EGL Ventures IV. Fleming was a principal of three ATV funds as detailed in Section IV, **Partnership Management**.
- The information presented in Section V, **Performance**, and elsewhere in this Memorandum represents *pro forma* combined investment results for the 31 investments managed by one or more of the Principals and is a *pro forma* presentation of the gross and net returns generated from this activity. It does not represent the actual investment returns generated by any of Messrs. Ellis, Massaro, or Fleming, nor does it represent actual returns to investors from any of their prior individual investment activities. The three Principals have not managed a fund together and this *pro forma* information does not represent the performance of an actual fund or the results obtained by a limited partner.
- Realized returns include dividends and other distributions. Distributions-in-kind are valued in accordance with the relevant agreements associated with prior funds (generally, a multi-day average of the closing price of a public security).
- Gross *pro forma* IRR results have been calculated prior to payment of carried interest. Net *pro forma* IRR has been calculated net of management fees and carried interest.
- Investment performance has been calculated on both a realized and unrealized basis. As highlighted in Section V, **Performance**, six investments are either still private, have been purchased by a company that is still private, or have merged with public companies where the securities received are not freely tradeable as of the valuation date. The realized and unrealized investment return information uses assumptions that the Principals deem relevant for the current valuation of the unrealized investments, increasing both the multiple and the internal rate of return. We have explicitly marked each set of assumptions in Section V, **Performance**, in this Memorandum.
- All calculations are based on valuations as of December 31, 2003.

Additional Information

This summary is intended to present a general outline of the policies and structure of the Partnership and the General Partner. The delivery of this Memorandum does not imply that the information contained herein is correct as of any date subsequent to July 1, 2004.

Prospective investors should read carefully this Memorandum and all supplemental disclosure materials delivered by the Fund before they make a commitment to purchase interests in the Fund. In particular, prospective investors' attention is drawn to the information under the headings "Risk Factors" and "Legal and Other Considerations." Prospective investors should also ask the Principals questions about the Fund and request any additional information regarding the Fund that they deem relevant or material before making an investment. Investors will be required to make representations about the matters described in this paragraph in their subscription agreement.

This summary is necessarily incomplete and is qualified by reference to the Limited Partnership Agreement, which we encourage you to read. Copies of the Limited Partnership Agreement and these documents will be made available upon request. The General Partner recommends that prospective investors review the Limited Partnership Agreement and other legal documents and consult with their legal and other advisors before purchasing an investment Interest. Representatives of the General Partner will be available to answer questions regarding the terms and conditions of the offering and to provide additional information that may be requested by prospective investors. Any such request should be directed to the address below.

Instructions for Subscribing

Prospective investors who wish to subscribe for Limited Partnership Interests in the Fund should obtain a Subscription Agreement by contacting the General Partner at:

EGL Ventures IV, L.P.
3495 Piedmont Road
Building 10, Suite 412
Atlanta, Georgia 30305
(404) 949-8300
www.eglventures.com

Attn: Salvatore Massaro, Principal
Direct dial: (404) 949-8303
Email: <samassaro@eglventures.com>

No other persons have been authorized to give information or to make any representations concerning this offering, and if given or made, such other information or representation must not be relied upon as having been authorized by the Partnership.

