9-200-015
REV: SEPTEMBER 5, 2001

PAUL A. GOMPERS

edocs, Inc. (A)

Kevin Laracey, Kris Canekeratne, and Jim Moran walked out of the Waltham office of Charles River Ventures (CRV) and were both elated and terrified. It was the spring of 1998 and they had finally found receptive ears for their business proposition to revolutionize online billing via the Internet. Their morning meeting with CRV had gone so well that Jonathan Guerster, the CRV associate responsible for contacting edocs, had asked Laracey, Canekeratne, and Moran to come back after lunch for more discussion. What greeted them upon their return, however, was a term sheet for a $4 million investment in their fledgling company. CRV had committed to financing at least $2 million of the $4 million investment and had promised to bring in a co-investor for the remaining $2 million. While the term sheet appeared to be written in an arcane language that Laracey, Moran, and Canekeratne could not decipher, they knew that this meant instant certification. Their months of searching for a venture capital investor were now over.

Now, however, the tough part began. Guerster had asked that edocs not shop the deal around to other venture capital firms. But was that the right response? Laracey was certain that he could fax this term sheet to five other venture firms and have a "better" deal on the table in a matter of days, if not hours. Should he do that? Laracey wondered what all these terms and conditions meant. Even though he had an MBA from UCLA, he felt ill prepared to negotiate with CRV. How could he find a way to make the deal more to his liking? What could and should CRV change and which terms were necessary? As Laracey, Moran, and Canekeratne got in their rental car and headed toward Route 128 on their way back to Logan Airport, they began to discuss their strategy.

The Bill Presentment Market

In 1998, most personalized transactional documents such as bills and statements were printed, stuffed into envelopes, metered for postage, and then delivered by the postal service. If the document was a bill, payment was usually made by paper check. Although reliable, this approach to bill presentment and remittance processing had become quite costly. Each year, Americans paid 18 billion bills and many billions were spent each year on the postage and processing of these bills. The U.S. postal service estimated that in 1997 alone, $2.4 billion was spent on postage for bank statements and bills. Of the remittance processing operations that process more than 100,000 transactions monthly, 94% of the transactions were paper-based, while only 6% were electronic. The average cost for processing a paper check payment was $1, while the production and postage costs for the typical bill were 30 to 40 cents.

Professor Paul A. Gompers prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

As the costs of paper bill presentation and remittance processing increased, the costs of connectivity and computing power—two key enabling technologies for *electronic* document delivery, presentation, and remittance processing—had dropped dramatically. In 1998 more than 37% of U.S. households had personal computers, with approximately 22 million households connecting to online services and the Internet. This number was expected to grow to 40 million households by 2000. It was estimated that 55 million people lived in households with e-mail access. The Web browsers and e-mail packages used by consumers and business were capable of displaying multimedia "electronic" documents, including typographic fonts, full-color graphics, and active content, including hypertext links, sound, and video. The security issues associated with transmitting sensitive information over the Internet had been largely resolved, with numerous vendors offering secure payment and information encryption technologies.

The penetration of low-cost computing power and connectivity into homes and businesses had significant implications for producers of personalized documents and vendors of personalized document technologies and services. The U.S. Postal Service estimated that within 10 years, $900 million of the $2.4 billion in annual postage charges for bills and bank statements would be lost due to the rise of electronic presentation and delivery solutions. CyberCash, a vendor of electronic payment technologies and services, estimated that its electronic check payment could reduce check-processing costs by 50%. Similarly, a recent industry trade study suggested that 69% of all large-volume billers (more than 5 million bills/statements per month) were planning to implement or pilot electronic bill presentment in 1998.

Laracey, Moran, and Canekeratne felt that the market was on the edge of a fundamental shift in the way that personalized documents were produced, distributed, and processed. A similar shift had occurred in the 1970s, as all points addressable production laser printing technology began to displace line printers, which were less cost effective and produced less visually rich documents than the new all points addressable technology. The transition from paper to electronic documents would not only affect how documents were produced but would also change the content of the document, the medium through which they were delivered, and the infrastructure required to process return documents and payments. The edocs' founders felt that this trend represented a significant opportunity—and a tremendous risk—for companies whose core business was based on the paper-centric approach to document processing.

The edocs Opportunity

Laracey, Moran, and Canekeratne hoped to revolutionize traditional bill and statement production, delivery, and payment process by enabling consumers and businesses to receive personalized documents via e-mail or through their Web browser. edocs would leverage the Internet to dramatically reduce the costs associated with producing, delivering, and paying bills and statements, while simultaneously transforming these documents into dynamic, interactive marketing tools. Rather than simply presenting customers with a facsimile of the document as it was designed for print, edocs would transform documents from their traditional layout into HTML format documents that incorporated hypertext links, animated image files and "clickable" image maps (see **Exhibit 1**). Such a product would allow edocs to generate documents that could fully utilize the interactive power of the Web. This ability to "re-compose" the document for presentation on-screen—rather than on paper—would make edocs generated documents more inviting, more personalized, and therefore, more effective.

edocs generated messages could also come with content enhancements, or "attachments," that would be used to perform time-saving tasks such as automatically updating a Quicken personal finance register. Through a technology partnership with CyberCash, messages generated by the edocs system would also incorporate a "PAY" button, which could be used to pay the bill by securely debiting the recipient's checking account or credit card via the Internet.

Laracey, Canekeratne, and Moran felt that the edocs system would have tremendous benefits for both the billing entity and the customer. For companies that used the edocs system, the electronic nature of billing would allow them to use bills and statements to facilitate cross-selling on the Web. Similarly, these companies could differentiate themselves from their competitors' "print only" offerings. Because the edocs system interfaced seamlessly with their existing billing infrastructure, it would preserve the investment made in legacy systems. On the cost side, the savings were even more impressive. Document delivery (postage) costs, remittance processing costs (electronic payment vs. paper check processing), as well as printing and finishing cost reductions would all be substantially lower for those firms that adopted the edocs' system.

Equally important, however, the edocs product would provide many benefits to customers who received the bills. First, documents could be "pushed" to the recipient's favorite e-mail package, or retrieved from a central server through any browser allowing ease of use. Similarly, bill payment/reconciliation would be easier and less time consuming. edocs would enable "one-click" bill payment, saving even more time. Because edocs would interface with programs like Quicken, it would automatically update personal finance software files. Over time, as the number of paper bills declined, edocs would be perceived as being environmental friendly. Finally, the electronic format allowed the customer to use the data in spreadsheets or other programs to analyze patterns in usage or expenses.

Development Strategy

Prior to forming edocs, Laracey worked for Elixir Technologies, a company focused on developing graphical software tools that simplified the process of producing personalized bills and statements on high-speed laser printers. . (See **Exhibit 2** for biographies of edocs' management.) Canekeratne met Laracey when his firm, INSCI Corporation, a leading vendor of high-volume customer care solutions for companies that produced bills and statements, licensed document-viewing technology from Elixir. While collaborating on the integration effort, they learned that each shared a strong desire to start a new venture that would leverage the Internet and their experience developing software for high-volume producers of bills and statements.

Laracey and Canekeratne knew that in order to get the best possible deal for their company, they should not approach venture capitalists without having made significant progress on the product. Early investments came from Laracey and Canekeratne's private savings. Canekeratne's family was also very important in making progress quickly and inexpensively. Not only did they invest, but his family owned a software development company in Sri Lanka. edocs utilized his family's company by hiring software development personnel in Sri Lanka. By the time Laracey and Canekeratne began approaching venture capitalists, product development for the first release of the edocs software had been completed. The edocs software was developed both more quickly and less expensively than it would have been had it been developed in the United States. Laracey and Canekeratne believed that these development resources represented a significant competitive advantage because of their unique expertise and the low cost of maintaining resources offshore.

Building Value Through Alliances

Laracey knew that edocs would need the services provided by other companies in order to successfully implement all of the elements that their customers would require. He had identified CyberCash as a prime strategic partner. CyberCash was the leading provider of technology that enabled secure payments to be made over the Internet by debiting a credit card or checking account. James "J.J." Keil, a former Xerox executive from the company's printing systems division and a board member on a number of early-stage technology companies was a member of Elixir's board and had been an early edocs supporter. At Laracey's request, he approached Bill Melton, then CEO of CyberCash and an AOL board member while Keil was attending an AOL shareholder's meeting. This led to a meeting with Richard Crone, CyberCash's VP and General Manager of the PayNow electronic check division at the April 1997 Internet World conference. At the conference, Laracey demonstrated the edocs product to Crone, who immediately recognized the product's potential, saying "You've invented a new category of software. Internet bill presentment and payment software."

In December of 1997, Laracey signed an agreement with CheckFree, a leading provider of electronic payment and bill presentment services. Laracey was also able to sign a Technology Partnership agreement with CyberCash and ultimately expanded the relationship to enable the CyberCash sales force to sell the edocs product line. This relationship had provided edocs with the right to integrate CyberCash's Wallet product into its software. The CyberCash Wallet would allow recipients of edocs generated messages to pay bills with the click of a mouse. CyberCash would also present edocs as a key provider of bill presentment technology to its prospective customers. Laracey believed that the CyberCash relationship represented a major competitive advantage and that it would expedite the company's ability to achieve its development and marketing objectives.

The Competition

Laracey, Moran, and Canekeratne had done an extensive survey of the competitive landscape. Competitors and potential competitors included MSFDC, CheckFree, and document services providers such as International Billing Services. Other potential competitors included vendors in the document archiving market such as IBM with its OnDemand product, FileNet, and start-up firms such as Cephas Multimedia and BlueGill Technologies, which were focusing on enabling document presentment on the Web by providing consulting services.

MSFDC (now known as Transpoint) was a company formed by Microsoft and First Data Corporation to pursue the Internet bill presentment and payment market. FDC was known to have a large group of personnel working on bill presentment and remittance processing solutions. As a multibillion dollar (revenues) processor of credit card transactions in the US, First Data had made significant inroads into the population of bill and statement originators and had access to large amounts of raw statement data. MSFDC intended to use its technology as part of a service offering and would not offer it as a software solution that could be purchased. Instead, the company was employing a "consolidator" service model, in which MSFDC concentrated bills from multiple billers at a single site and charged billers "something less than the cost of a postage stamp" for placing the bill on the MSFDC site.

CheckFree had an electronic bill presentment and remittance processing solution and was also firmly in the consolidator camp. CheckFree planned to use its technology to facilitate a service offering and had no immediate plans to license its software to billers. Industry analysts noted that it would be "difficult" for the company to pursue a biller direct model in which CheckFree would sell its bill presentment capabilities to empower billers to present bills on their own Web site. Laracey, Moran, and Canekeratne felt that because CheckFree was focused on its service center business model, it was unlikely that CheckFree would extensively tailor its presentment solution to meet the needs of each individual biller. Moran's experience as SVP of Sales in CheckFree's Electronic Commerce division helped them reach these conclusions.

IBM was also known to view the Internet as being key to the strategy of its Printing Systems Division. IBM's major investment in the On Demand product, which facilitated presentment of AFP (Advanced Function Presentation) and Adobe PDF format documents over corporate Intranets, had shown their interest in online bill presentment. IBM had developed a Web browser plug-in to facilitate display of AFP data over the Internet. Laracey and Canekeratne expected that IBM would try to extend the AFP architecture to incorporate presentment capabilities like those found in edocs, and so they were considered a potential competitor.

International Billing Services produced 1.5% of all U.S. first class mail and was one of the largest providers of billing services for cable television systems in the United States. The company announced a pilot project in 1997 in which it would convert legacy print files to document formats that could be retrieved from a Web site.

Another group of potential competitors were service firms which provided custom solutions for various billers. Cephas Multimedia was a provider of custom Web site development services and was the systems integrator that created one of the first interactive bill presentment and payment systems available on the Web for Kansas City Power and Light. Laracey and Canekeratne believed that Cephas Multimedia was trying to replicate their experience at KCP&L by selling integration services, but they were not developing a software suite that would enable Internet bill presentment and payment. BlueGill was a start-up firm selling information technology consulting services to convert AFP format print documents to Adobe's Portable Document Format (PDF) to enable the presentation of bills and statements via a browser. They had received initial seed money from five to ten private investors and were believed to have two installations of their product. BlueGill had also approached Laracey and Canekeratne about the possibility of re-selling the edocs product line.

Marketing Strategy

Laracey, Moran, and Canekeratne had developed a two-part marketing approach. The edocs software suite would be marketed to high-volume producers of transactional documents—such as bills and statements—who viewed bill presentment as a strategic asset, who saw innovative bill presentment technologies as a means of achieving competitive advantage, and who were ready to pilot or implement an electronic document presentment system. The cost savings associated with electronic presentation, delivery, and remittance processing were, however, a secondary but important consideration for these early adopters.

Initial sales would likely be to billers or billing services providers looking to offer the edocs service to their more affluent customers who had PCs and Internet connectivity. It was also likely that many initial applications would be business-to-business applications. It was probable that for the first several years after its launch, the edocs system would not reduce the number of paper bills and statements produced. At the start, edocs generated messages would be sent in addition to the paper version of the bill or statement, suggesting that electronic presentment would represent a net new revenue opportunity for vendors of paper-based document production technologies. Over time, billers would offer financial incentives to bill and statement recipients to encourage them to forego the receipt of printed documents.

Prospective edocs customers were likely to be users of specialized database publishing products. Use of these products indicated that the potential customers viewed bill and statement presentment as a valuable marketing opportunity that could yield competitive advantage.

In addition to end-user customers, Laracey, Canekeratne, and Moran felt that a significant opportunity existed to license its technology to vendors of document management and database publishing products. Laracey, Canekeratne, and Moran had already received two inquiries from well-known vendors of these types of products about the possibility of incorporating edocs technology into existing offerings.

Business Model—edocs Advantages

The decision to offer edocs as a software product—not as a service—provided edocs with a significant competitive advantage over firms such as MSFDC, who only offered Internet document production and delivery as a service. Laracey, Canekeratne, and Moran had learned that these firms experienced problems gaining acceptance for their service-only offerings in the marketplace because of customer concerns about "intermediation"—the introduction of a third party that stood between the biller and its customers to facilitate bill presentment. Among the concerns was the fear that a single service provider could aggregate and "mine" the data provided by several billers. Purchasing a software solution like edocs would give billers and billing services providers complete control of their data, with none of the issues associated with intermediation.

Pricing

Workstation versions of database publishing systems typically ran under a variant of the UNIX or Windows NT operating systems and were available from a variety of vendors at prices that ranged from $70,000 to $150,000. This price typically included a server component that converrted input data into a composed document, and a designer component that allowed users to define the rules that governed how a document should be composed. Laracey, Canekeratne, and Moran estimated that the average edocs software system would sell for $120,000, since the product's Internet presentment capabilities would allow it to demand a premium over the average price of a database publishing system.

As was customary with complex software solutions, Laracey, Canekeratne, and Moran expected that edocs annual license fees would be 18% of the initial license fee, resulting in a recurring revenue stream of $21,600 for each system sold.

Charles River Ventures

Charles River Ventures (CRV) was one of the nation's leading early-stage venture capital firms. Founded in 1970 and based in Boston, its mission was to contribute to the creation of significant new enterprises by working in constructive partnership with driven, talented entrepreneurs. Through 1998, Charles River had organized nine funds totaling $565 million, providing capital and guidance to more than 235 companies. In 1998 CRV's most recent two venture funds were both returning more than 100% per annum to their investors. Charles River Partnership IX was organized in 1998 with a total capitalization of $175 million. CRV focused on high-potential start-ups in the communications, software, and information services industries. Each principal specialized in a particular subset of these sectors. The firm played an active role in their investments, usually through board representation.

CRV's initial commitment to a company was typically $1 to 5 million; over the course of the company's evolution, they expected to invest roughly $3 to 10 million in the project. Their equity ownership of portfolio companies was generally 10 to 20% prior to an initial public offering. More than 50 of their past investments had gone public, with many going on to become industry leaders (e.g., Cascade Communications, Chipcom, CIENA, Parametric Technology, Sybase, and Vignette). Many others were successfully merged into pre-existing public companies.

CRV's investment focus identified opportunities that met several yardsticks. The firm specialized in early-stage projects in communications, software, and e-commerce services—industries where it had an extensive network of contacts and where each general partner had gained operating experience. CRV hoped that companies addressed markets of $250 million per year or more and companies that could reach the $50 million or higher revenue threshold within five to seven years. CRV generally preferred to act as the "lead" investor, and consequently directed most of its attention to companies in the Northeast corridor (Washington, DC to Boston).

At times, CRV would provide seed financing to an outstanding entrepreneur to fund the development of a business concept. In financing a company, CRV typically worked initially with one other top-tier venture firm, bringing the portfolio company a more diverse network and providing a stronger financial syndicate.

CRV's Focus on Bill Presentment

Jonathan Guerster had joined Charles River as an associate in late 1997 with an explicit mandate to invest in e-commerce-related businesses. (See **Exhibit 3** for CRV biographies.) Even though he had only been at Charles River for several months, he knew that Internet bill presentment was a tremendous market opportunity. Prior to joining Charles River, Guerster had worked at OpenMarket on Internet bill presentment and understood the market opportunity that it represented. Guerster had spent several months surveying the landscape and identified three potential investment targets for CRV. Just-in-Time Solutions (JITS), Bluegill, and edocs were all focusing on Internet bill presentment and were all looking for first round venture financing in early 1998.

To try and help with the due diligence process, Guerster contacted Jim Moran, Senior Vice President of Sales for CheckFree, a company that processed electronic payments via the Internet. Moran was interested in the Internet bill presentment space and was actively looking for an opportunity to join in the effort. Guerster and Moran thought that Just-in-Time had the edge and was aggressively trying to finance the firm, even though Norwest, another venture capital firm, seemed to have the inside track.

As it happened, Moran and Laracey had been collaborating prior to Guerster's call to Moran. Laracey and Moran had spent a fair amount of time talking on the phone about the marketplace in great detail. As it happened, Moran and Laracey actually met face-to-face for the first time in JITS offices. Laracey was at Just-in-Time to discuss a potential joint venture whereby Just-in-Time would utilize edocs' software solution, while Moran was there evaluating the possibility of joining Just In Time. Moran was waiting in a glass conference room adjoining the glass room in which Laracey was waiting. Becoming bored with the wait, Moran proceeded to walk over to Laracey and introduce himself. When Laracey replied, the pair laughed at the circumstances. Upon concluding their respective meetings, Moran and Laracey shared a cab to the hotel and continued their discussions about Moran potentially joining edocs. Moran had been an executive at CheckFree, where he had been General Manager of the Corporate Commerce Services Division and SVP of Sales for the Electronic Commerce Division. While at CheckFree the company had grown its revenues from $20 million per annum to more than $250 million. Moran played a key role in positioning CheckFree for a successful IPO in 1995. Moran had decided that he wanted to join a start-up and was evaluating firms in the Internet billing space.

The day after the meeting at Just In Time, an Electronic Banking Conference was held in San Francisco. Moran and Laracey ended up staying together for a couple of days after the meeting at JITS. In discussions, Laracey told Moran that edocs had been searching for venture financing for six months and had had little success. While he had been able to set up initial meetings with several Silicon Valley venture funds, none of them seemed overly eager to commit. Many of them told Laracey that they would call back. His phone had not been ringing yet. Moran saw that Laracey's software-based strategy gave edocs a potential advantage relative to both Just-in-Time and Bluegill. During the conference, Moran arranged a meeting with Jonathon Guerster to discuss opportunities. Moran indicated that he was 99% certain that he would partner with Laracey and Canekeratne to help launch edocs. Guerster viewed this as a material event for edocs and was willing to "fast track" the due diligence process. Guerster knew that he had a "short wick" relative to the timing associated with making a potential investment in Bluegill or JITS. (See **Exhibit 4** for financial projections for edocs. **Exhibits 5** and **6** contain information on comparable companies.)

March 23, 1998 Meeting

Guerster indicated to Moran that he was very impressed with Laracey and suggested that Laracey fly from Los Angeles, where he was based, to Boston to meet with the Charles River's general partners. Laracey, Canekeratne, and Moran scheduled a meeting for the next week at CRV's Waltham offices.

During the three-hour-long meeting between edocs and CRV, Laracey, Canekeratne, and Moran were very impressed with the knowledge of the market that Guerster and CRV brought to the table. Questions were insightful and challenging. As the presentation concluded, Laracey, Moran, and Canekeratne had a good feeling about the meeting. Most of the general partners at CRV were nodding in agreement during the discussion. The meeting concluded at noon. As Laracey, Moran, and Canekeratne packed up to head back to the airport for their flights, Guerster asked the edocs team to have a quick lunch and return in one hour for further discussions.

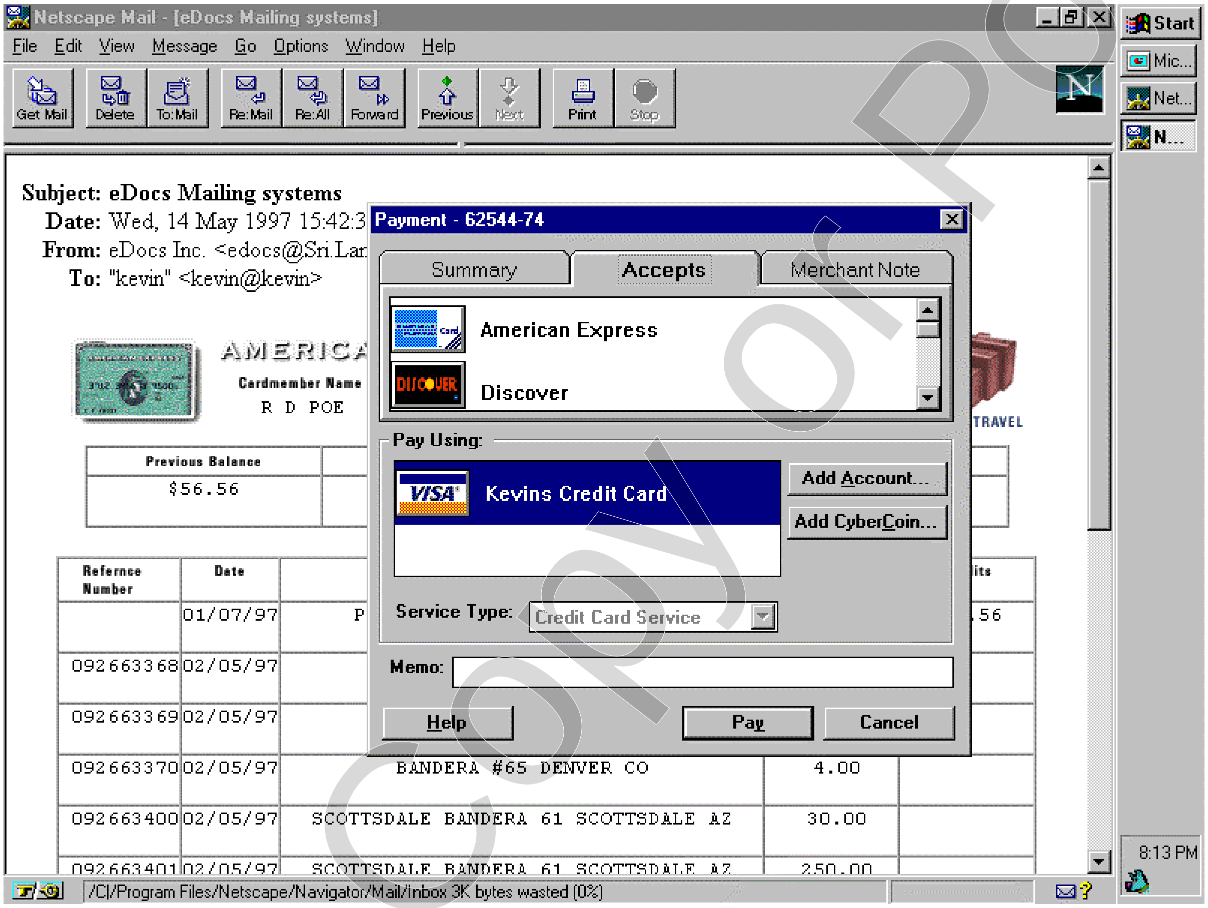
What greeted Laracey, Canekeratne, and Moran upon their return to CRV's office, however, was not more discussions but a term sheet that outlined general terms for an investment. (See **Exhibit 7** for the preliminary investment term sheet.) Laracey was stunned. He had been hopeful that CRV might invest, but he did not believe that a decision would be made so quickly.

The terms of the deal called for CRV to invest $2 million and for CRV to find a second venture capital firm to invest another $2 million investment with a $10.5 million post-money valuation. The founders would receive 5 million shares, 1.5 million shares would be set aside for employee stock options, and CRV and its syndicate partner would get 4 million shares of convertible preferred equity for their $4 million. The convertible preferred would convert one-for-one into common stock. If no other venture firm was willing to coinvest, CRV would invest the additional $2 million, but would get additional warrants for investing the entire amount. That much, Laracey, Canekeratne, and Moran understood. The three pages of additional terms and conditions, however, were very confusing. Neither Laracey nor Canekeratne had ever seen a venture capital term sheet. Many of the terms looked onerous, but how could they decide? In the meantime, Guerster asked Laracey, Canekeratne, and Moran not to "shop the deal around." CRV was making a commitment to finance the company and wanted to be perceived as a partner, not an adversary.

What to Do?

As Laracey, Canekeratne, and Moran left CRV's office, all their hard work and sacrifice seemed to be paying off. edocs had suddenly cleared a major hurdle. Charles River was certainly a top-tier venture firm and would bring much needed capital and credibility to edocs. They were uncertain, however, what the best course of action was. They knew that they would now have immediate access to other top venture funds and might be able to negotiate better terms if they had competing offers. (See **Exhibits 8** and **9** for information on the state of the venture capital market.) How hard should they negotiate and which terms were most important to alter? Should they ask for more money? higher valuation? What about the potential co-investor? Laracey, Canekerantne, and Moran began to discuss how they might make the deal work. First, however, they needed to understand the terms of the proposed financing. Laracey threw 50 cents into the tolbooth bucket and headed down Interstate 90 toward the airport.

Exhibit 1 edocs Interface



Source: Company documents.

Exhibit 2 Managment Biographies

J.J. Keil, Chairman: Mr. Keil, founder of Keil & Keil, a Washington DC-based consulting firm specializing in sales and marketing consulting to the Fortune 500, was formerly a Vice President in the Xerox Printing Systems Division, where he played a key role in growing this business from $100 million to more than $1 billion in revenue when he left in 1990. Before joining Xerox, Mr. Keil spent 20 years at IBM in various management positions. He has also been involved in a number of technology startups. He served on the board of Document Sciences, a major provider of database publishing solutions that completed a successful IPO in 1996. He also served on the board of NeoMedia Technologies, a provider of digital document solutions that also completed an IPO in 1996. In addition, he served on the board and was chairman of Elixir Technologies Corporation, a leading provider of graphical software tools that simplified the production of printed bills, statements, and other personalized documents on high-speed laser printers. Mr. Keil had a working relationship with Mr. Laracey since 1988. In addition to providing overall guidance to the company, Mr. Keil would play a key role in securing sales and marketing relationships with key technology and services vendors in the print and mail industry.

Kevin E. Laracey, President: Before founding edocs, Mr. Laracey was Vice President of Marketing at Elixir Technologies Corporation. While at Elixir, Mr. Laracey played a key role in setting product strategy and in establishing a leveraged sales model that allowed Elixir to sell its products through the IBM and Xerox printing systems sales forces, and to become the dominant supplier in its market. He also designed Elixir's products that facilitated the conversion of documents in production print file formats to Adobe's Portable Document Format, making it possible to view these documents on the Internet using any browser. Mr. Laracey was a prominent figure in the database publishing/print and mail industry, and had served on the vendor advisory council for the industry's user group, XPLOR. Before joining Elixir, Mr. Laracey worked as an analyst in the Travelers Companies computer science department, where he played a key role in developing the company's corporate electronic publishing strategy, and designed and implemented the first electronic publishing solution that linked desktop publishing software to production speed laser printers. Mr. Laracey received an MBA in Marketing and Finance from the UCLA Anderson School of Business and a B.A. from the University of Notre Dame.

Kris Canekeratne, Director: Mr. Canekeratne was Senior Vice President and Chief Technology Officer at INSCI Corporation (NASDAQ: INSI), the leading provider of high volume document archiving technology in the document management market. Mr. Canekeratne was the chief architect of the INSCI CoinServ and CoinCD systems, which made it possible to distribute documents in image and print file formats throughout the enterprise. Mr. Canekeratne served as a key technical advisor to the edocs team and was instrumental in helping edocs establish its offshore development capability. While Mr. Laracey was at Elixir Technologies, Mr. Canekeratne and Mr. Laracey worked closely to merge Elixir's document viewing technology with the INSCI CoinServ document archiving system. Mr. Canekeratne received a Bachelor of Science degree in Computer Science from the University of Syracuse and frequently represented INSCI at industry conferences and analyst briefings.

Exhibit 2 (continued)

Jim Moran, Executive Vice President: As a Founder and Executive Vice President, Mr. Moran was responsible for sales, marketing, and business development. Formerly SVP of Sales in CheckFree's (NASDAQ: CKFR) Electronic Commerce Division, Mr. Moran developed a successful sales strategy and field organization that linked the suite of CheckFree payment solutions with the highly leveraged distribution channels of Banks, Brokerages and Diversified Financial Institutions. This resulted in positioning CheckFree for a successful IPO, four acquisitions, and revenue growth from $25M to $250M in just four years. In addition, Mr. Moran had been an industry spokesperson and featured speaker at events such as Internet World, Financial Forum, Harvard Business School, TeleStrategies, BAI, TMA,and H&Q's Planet Wall Street. Prior to CheckFree, Mr. Moran held senior sales positions with the high-tech organizations Infinium Software (NASDAQ:INFM), Storage Technology (NYSE:STK) and EMC Corporation (NYSE:EMC). Moran served on the Board of Directors at BancFirst Ohio Corporation (NASDAQ:BFOH). He was a graduate of Northeastern University.

Richard K. Crone, Director: Richard K. Crone was Vice President and General Manager at CyberCash, Inc. (NASDAQ:CYCH). He was responsible for the development and release of the PayNow™ Secure Electronic Check Service. He was responsible for leading a team that developed the PayNow service. He also secured several major strategic alliances with other technology and financial service providers, giving CyberCash access to a sales force with relationships in nearly 100% of the accounts targeted for the new PayNow™ service. The business plan for his service had been used on several occasions to secure both private and public sources of funding and joint development agreements with alliance partners. Prior to joining CyberCash, Mr. Crone led the nation's largest savings bank, Home Savings of America, as Senior Vice President and Co-Director of Electronic Banking, in their successful launch of online banking with Microsoft Money and Intuit's Quicken. Prior to joining Home Savings of America, Mr. Crone spent eight years with KPMG Peat Marwick's Financial Services Consulting Practice, leaving as a Senior Manager and director of the Firm's Center for Electronic Banking. Mr. Crone began working with edocs early in 1997, when edocs and CyberCash consummated a technology partnership agreement, which was expanded to enable CyberCash's sales force to sell the edocs product line along with CyberCash's PayNow service. He received a Bachelor of Science degree and a Master's of Business Administration degree with honors from the University of Southern California.

Source: Company documents.

Exhibit 3 Charles River Ventures General Partners' Biographies

Rick Burnes: Burnes had been a venture capitalist since 1965, nearly his entire professional life. He was a co-founder of Charles River Ventures in 1970 and had played a major role in the firm's development into one of the nation's most successful venture funds. He focused on investments in the fields of communications and information services. Cascade Communications (NASDAQ: CSCC), Chipcom Corporation (acquired by 3COM), Epoch Systems (acquired by EMC), Abacus Direct (NASDAQ: ABDR), Summa Four (NASDAQ: SUMA), Concord Communications (NASDAQ: CCRD), Prominet (acquired by Lucent), and Aptis (acquired by Nortel) were among the successful investments he led on behalf of Charles River. Burnes was also responsible for investments in AirSpan and Sonus, and held Board seats at Concord Communications, OMNIA, and SpeechWorks.

Jonathan Guerster: Guerster joined Charles River in 1997 focusing on e-commerce related software and services. Prior to Charles River, Guerster served as Director of Corporate Development at Open Market (NASDAQ: OMKT), an Internet commerce software company in Burlington, Massachusetts. As Director of Financial Services, Guerster was responsible for building Open Market's overall business in the financial services industry. Prior to Open Market, Guerster worked in marketing and sales management roles with Hewlett-Packard's Apollo Workstation Division and with J.P. Morgan. Guerster was a graduate of Northwestern's Kellogg Graduate School of Management and of Duke University, where he graduated with Distinction, earning a Bachelor of Science in electrical engineering and computer science.

Ted Dintersmith: Dintersmith had over a decade of experience in early-stage venture investing, focusing on software and information services companies. He had been an early and active investor in several successful start-ups including Flycast Communications (NASDAQ: FCST), Ibis Technology (NASDAQ: IBIS), Individual (NASDAQ: NEWZ), PCs Compleat (acquired by CompUSA), SQA (NASDAQ: SQAX, acquired by Rational), and Vignette (NASDAQ: VIGN). He served on the Boards of Bow Street Software, Be Free, Entelos, Flycast, net.Genesis, Novera, Trellix, and WebSpective Software. Prior to his career in venture, Dintersmith was General Manager of the Digital Signal Processing Division of Analog Devices, which he directed from start-up phase to a leading position in a rapidly growing sector of the semiconductor industry. His work experience also includes two years as a congressional staff assistant, where he contributed to science and technology policy. Dintersmith earned a Ph.D. in Engineering from Stanford University, concentrating on mathematical modeling and optimization theory. His undergraduate degree was from the College of William and Mary, where he graduated Phi Beta Kappa with High Honors in Physics and English.

Mike Zak: Zak joined Charles River in 1991, where he became known for his focus on data communications, telecommunications, and networking software. He led the firm's investments in projects such as Agile Networks (now part of Lucent Technologies), American Internet (now part of Cisco Systems), CIENA (NASDAQ: CIEN), RAScom (acquired by Excel Switching), and ON Technology (NASDAQ: ONTC). Zak organized the seed financing for OMNIA (acquired by Ciena) and Charles River's initial investments in C-Port and Sitara. Prior to joining Charles River, Zak spent 14 years in various sectors of the communications industry and held positions as various as network systems engineer, network operations manager, director of marketing for Motorola, Inc., and co-founder and V.P. of engineering for Concord Communications, Inc., a data communications start-up company. Earlier in his career, he was a management consultant with McKinsey & Company, where his clients included companies in PC software, value-added networking, telecommunications, and semiconductors. Zak was a 1975 graduate of the College of Engineering at Cornell University, and in 1981 he earned an MBA degree from the Harvard Business School. Prior to business school, he served as an officer in the U.S. Marine Corps in both the United States and overseas.

Exhibit 3 (continued)

Izhar Armony: Armony joined Charles River in 1997 focusing on enterprise software and services. Previously, in the summer of 1996, he worked with General Atlantic Partners focusing on enterprise software and from 1988 to 1995 with Onyx Interactive, an interactive training software company. At Onyx, Armony held various positions from software designer to director of business development. Prior to Onyx, he spent four years as an officer in the Israeli Army. Armony's investing focus was on the areas of enterprise software and e-commerce. He was responsible for Charles River's investments in Celarix, Oberon, VIP Calling and Yantra. Armony held an M.A. in Cognitive Psychology from the University of Tel Aviv, an M.A. in International Studies from the University of Pennsylvania, and an MBA from Wharton.

Source: Company documents.

Exhibit 4 edocs Revenue Scenarios—Fiscal 1998 through 2002 ($ millions)

Target Performance:

Year	1998	1999	2000	2001	2002
Revenue	$3.0	$11.7	$32.1	$56.3	$98.5

Threshold Performance (- 35% of Target):

Year	1998	1999	2000	2001	2002
Revenue	$1.9	$7.6	$20.8	$36.6	$64.0

Stretch Performance (+35% of Target):

Year	1998	1999	2000	2001	2002
Revenue	$4.0	$15.7	$43.3	$76.1	$132.9

Target Performance Income Summary:

	1998	1999	2000	2001	2002
Revenue	$2,966,396	$11,671,709	$32,055,412	$56,344,305	$98,504,098
Cost of Revenues	$561,496	$2,140,705	$5,860,619	$8,647,045	$15,749,974
Operating Expenses	$4,316,173	$8,713,549	$17,266,953	$33,624,550	$57,838,269
Net Income	($1,911,273)	$817,455	$8,927,842	$14,072,710	$24,844,454
Net Income %	-64%	7%	28%	25%	25%

Source:

Exhibit 5 Comparable Firm Venture Financing Data

Netdox
http://www.netdox.com

COMPANY OVERVIEW:
Business Brief: Provider of secure, electronic message delivery over the Internet
Founded: 01/96
Status: Private & Independent
Employees: 36
Stage: Product Development
Spinout of: Deloitte & Touche
Industries: Other Online Services
Internet Focus: Business Services

INVESTORS:

Investment Firm	Participating Round #(s)
Apex Investment Partners	1, 2, 3
Thurston Group	3

FINANCINGS TO DATE:

Round #	Round Type	Date	Amount Raised ($MM)	Post $ Valuation ($MM)	Company Stage
1	1st	08/97	0.8	20.0	Startup
2	2nd	11/97	2.87	N/A	Product Development
3	Bridge	02/98	N/A	N/A	Product Development

Documentum
http://www.documentum.com

COMPANY OVERVIEW:
Business Brief: Developer of object-oriented document management systems
Financing Status: As of 02/96 The company completed a $43.2M IPO on 2/5/96 priced at $24/share.
Founded: 01/90
Status: Publicly-held
Employees: 174
Stage: Profitable
Spinout of: Xerox
Industries: Workflow Software

INVESTORS:

Investment Firm	Participating Round #(s)
Brentwood Venture Capital	2, 3
Norwest Venture Partners	2, 3
Merrill, Pickard, Anderson & Eyre	2, 3
Sequoia Capital	2, 3
Xerox Venture Capital	1*, 2*, 3
Integral Capital Partners	3

* = Lead Investor

FINANCINGS TO DATE:

Round #	Round Type	Date	Amount Raised ($MM)	Post $ Valuation ($MM)	Company Stage
1	1st	03/93	2.0	2.7	Product Development
2	2nd	10/93	7.0	13.7	Shipping Product
3	3rd	09/94	4.5	49.7	Shipping Product
4	IPO	02/96	43.2	323.3	Profitable

Exhibit 5 (continued)

Dazel
http://www.dazel.com

COMPANY OVERVIEW:

Business Brief:	Developer of distributed client/server software which automates the process of sending documents, spreadsheets, reports, orders, and presentations to other parties
Founded:	08/91
Employees:	70
Stage:	Shipping Product
Spinout of:	Tivoli Systems
Previous Name:	Atrium Technologies
Industries:	Workflow Software

INVESTORS:

Investment Firm	Participating Round #(s)
Individual Investors	1*, 2, 3, 4
Sevin Rosen Funds	2*, 3, 4, 5
Austin Ventures	2, 3, 4, 5
SSM Ventures	2, 3, 4, 5
Sigma Partners	3*, 4, 5
Integral Capital Partners	4*, 5
Goldman Sachs Group	5*

* = Lead Investor

FINANCINGS TO DATE:

Round #	Round Type	Date	Amount Raised ($MM)	Post $ Valuation ($MM)	Company Stage
1	Seed	08/91	0.13	N/A	Startup
2	1st	05/94	3.5	7.5	Shipping Product
3	2nd	02/95	3.2	14.4	Shipping Product
4	3rd	06/96	9.5	45.0	Shipping Product
5	Later	12/97	7.0	100.0	Shipping Product

Source: Compiled from VentureOne

Exhibit 6 Comparable Firm Financial Data

IBM	1994	1995	1996	1997
Sales	$64,052	$71,940	$75,947	$78,508
SG&A	$20,279	$20,448	$21,508	$21,511
Cap Ex	$3,078	$4,744	$5,883	$6,793
Op Inc before Dep	$9,202	$13,874	$12,707	$13,116
Net Income	$3,021	$4,178	$5,429	$6,093
Total Assets	$81,091	$80,292	$81,132	$81,499
Current Assets	$41,338	$40,691	$40,695	$40,418
Current Liabilities	$29,226	$31,648	$34,000	$33,507
Total Debt	$22,118	$21,629	$22,829	$26,926
Market Value	$43,197	$50,053	$76,959	$100,240
Beta	0.87	1.00	1.18	1.33
P/E Ratio	14.30	11.98	14.18	16.45

XEROX	1994	1995	1996	1997
Sales	$17,837	$16,611	$17,378	$18,166
SG&A	NA	$5,721	$6,118	$6,304
Cap Ex	$389	$438	$510	$520
Op Inc before Dep	$2,967	$3,151	$3,252	$3,499
Net Income	$794	-$472	$1,206	$1,452
Total Assets	$38,585	$25,969	$26,818	$27,732
Current Assets	NA	$9,833	$10,152	$10,766
Current Liabilities	NA	$6,999	$7,204	$7,692
Total Debt	$10,939	$11,132	$11,960	$13,123
Mkt. Value	$10,493	$14,843	$17,034	$24,101
Beta	1.27	1.26	0.71	1.00
P/E Ratio	13.22	-31.45	14.12	16.60

DOCUMENTUM	1995	1996	1997
Sales	$25.46	$45.30	$75.64
SG&A	$19.45	$31.90	$52.05
Cap Ex	$2.75	$5.20	$6.92
Op Inc before Dep	$2.41	$6.70	$12.23
Net Income	$1.26	$4.48	$7.35
Total Assets	$16.50	$74.94	$127.20
Current Assets	$12.79	$67.22	$116.87
Current Liabilities	$8.16	$15.40	$25.17
Total Debt	$1.44	$1.04	$0.02
Mkt. Value	NA	$478.81	$657.28
Beta	NA	1.79	1.70
P/E	NA	106.78	89.38

DOCUMENT SCIENCES	1995	1996	1997
Sales	$10.51	$15.32	$19.74
SG&A	$7.68	$11.37	$15.27
Cap Ex	$0.30	$0.53	$1.59
Op Inc before Dep	$1.83	$1.92	$0.44
Net Income	$1.05	$1.36	$0.84
Total Assets	$6.29	$32.02	$34.23
Current Assets	$5.28	$30.65	$29.97
Current Liabilities	$3.93	$4.84	$6.07
Total Debt	$0.14	$0.18	$0.12
Mkt. Value	NA	$105.88	$32.23
Beta	NA	1.44	1.60
P/E	NA	77.80	38.46

CHECKFREE	1994	1995	1996	1997
Sales	$39.27	$49.33	$76.79	$176.45
SG&A	$11.75	$18.25	$46.99	$84.25
Cap Ex	$1.04	$3.43	NA	$9.76
Op Inc before Dep	$3.04	$0.61	NA	-$24.17
Net Income	$0.49	-$0.22	-$138.86	-$161.81
Total Assets	$30.51	$115.64	$196.23	$223.84
Current Assets	$17.61	$90.47	$90.80	$86.22
Current Liabilities	$5.68	$8.68	$45.30	$66.22
Total Debt	$9.30	$8.44	$9.44	$9.35
Mkt. Value	NA	$690.30	$825.15	$960.65
Beta	NA	1.24	1.39	1.22
P/E	NA	NM	NM	NM

Source: Compiled from Compustat.

Exhibit 7 Memorandum of Terms

SUMMARY DRAFT MEMORANDUM OF TERMS
For a Proposed Financing
Series A Preferred Stock of edocs, Inc.
March 23, 1998
Version 1.2

Amount & Securities:	$4,000,000 of Series A Convertible Preferred Stock.
Share price:	$1.00/share
Dividend:	Annually accruing $0.08 per share, to be paid in case of redemption.
Closing Date:	April 28th, 1998.
Founders:	Kevin Laracey, Kris Canekeratne, Jim Moran
Investors:	<u>Name</u> / <u>Amount</u> Charles River Ventures — $2,000,000 Additional mutually agreeable venture capital firm — $2,000,000
Liquidation:	In case of merger, reorganization or transfer of control of edocs, first pay cost of Preferred Stock. Participating goes away on valuation that corresponds to $50 million. Thereafter Preferred and Common share on as-converted basis.
Redemption:	Redemption at mutual agreement of both Series A Preferred Stock holders, equal annual installments years 5 through 7. Pay back cost plus accrued dividend.
Conversion:	Convertible into one share of Common Stock at the option of the holder, or automatically upon a qualified IPO (at least $5.00 per share and aggregate proceeds of $15 million).
Antidilution:	Conversion ratio adjusted on a Weighted Average basis in the event of an issuance at less than $1.00, with the exception of stock issued to employees, consultants, directors or other individual contributors. Antidilution subject to "pay to play" limitations. Pro rata adjustments for stock splits, combinations, and dividends.
Voting rights:	Votes on an as-converted basis, but also has class vote.
Representations & Warranties:	Standard.

Exhibit 7 (continued)

Proposed Terms
EDocs, Inc.

page 2

Non Competition & Non Disclosure:	Founders and key employees to execute non-competition, non-disclosure and invention assignment agreements with the edocs.
Negative Covenants:	Consent of at least 60% of the outstanding Preferred Stock for: dividends on Common; Preferred or Common repurchase; loans to employees; guarantees; Merger consolidation, sell, or disposal of substantially all of the properties or assets; Mortgage, pledge, or creation of a security interest; Ownership of any security by the edocs; incurring debt senior to the Series A Preferred Stock; Change in the principal business of edocs; investments in third parties; capital expenditures of $250,000 in a single expenditure or in aggregate of $500,000 in a twelve month period.
Right of first	The Investors shall have a pro rata right, based on their percentage equity
Refusal:	ownership of Preferred Stock, to participate in subsequent equity financing of the edocs. If any shareholder of the Common equivalent wants to sell shares, he must offer them first to the holders of Series A Preferred.
Take-Me-Along:	If a shareholder of Common or equivalent wants to sell shares, holders of Series A Preferred have a right to participate on a *pro rata* basis in the sale. This does not apply to sales in an IPO or afterward.
Access & Reporting:	Standard. Annual business plan and budgets by the fourth quarter. Monthly, quarterly, and annual audited financial statements.
Board of Directors:	Five total, until new CEO is hired: two representatives of the Series A Preferred; Kevin Laracey (Founders' representative and CEO), one outsider recommended by the Founders and acceptable to Investors, and one additional outside director (possibly Chairman) acceptable to the board. Upon hiring of new CEO, board total increases to six with new CEO taking additional board seat. Board meetings to take place every four weeks.
Indemnification:	Directors and officers will be entitled to indemnification to the fullest extent permitted by applicable law.
Counsel & Expenses:	Investor counsel to draft closing documents. edocs to pay all legal and administrative costs of the financing, not to exceed $20,000 plus disbursements.
Registration Rights:	On demand registration starting four years from closing or three months after initial registration with aggregate proceeds in excess of $10 million; unlimited piggybacks; limited S-3 registrations of at least $500,000 each. All at eDoc's expense.

Exhibit 7 (continued)

Proposed Terms
edocs, Inc.

page 3

Founders' Stock, Options & Vesting:	Option pool of 1,500,000 to have 48 months vesting with 12-month cliff and linear vesting thereafter. Founder's shares vest 25% on closing, with the remainder vesting linearly over a 36-month period, and the unvested portion subject to buyback provisions. edocs has right to repurchase unvested shares in the event of employment termination. All vesting will accelerate by 12 months on an acquisition resulting in a change of control.
Founders' Termination:	In the event that a Founder is terminated by the incoming CEO, a committee consisting of the remaining Founders and one representative from Charles River Ventures will determine whether some portion of that Founder's unvested equity should be accelerated.
Subject to:	- Legal and accounting due diligence - No significant business or organizational changes prior to closing
Signed:	March 23, 1998

Exhibit 7 (continued)

March 23, 1998

Kevin Laracey
Chief Executive Officer
edocs, Inc.

Dear Kevin,
This letter confirms that Charles River Ventures is committing $2 million in financing to edocs, Inc. with an expected closing date of April 28, 1998. Our plan is to secure a commitment of $2 million from another top-tier venture fund by that date, for a total financing of $4 million. If no such commitment has been obtained by the target closing date, CRV will close on the $2 million financing.

At the discretion of the Founders and Charles River Ventures, the financing may be held open for an additional time period (no longer than 45 days) as the process for obtaining an additional investor is resolved. If, at the end of that period, no such additional investor has committed to this financing, we will receive a grant of 500,000 warrants (exercisable at $.10 per share, duration of three years) for common shares, and close on a $2 million round.

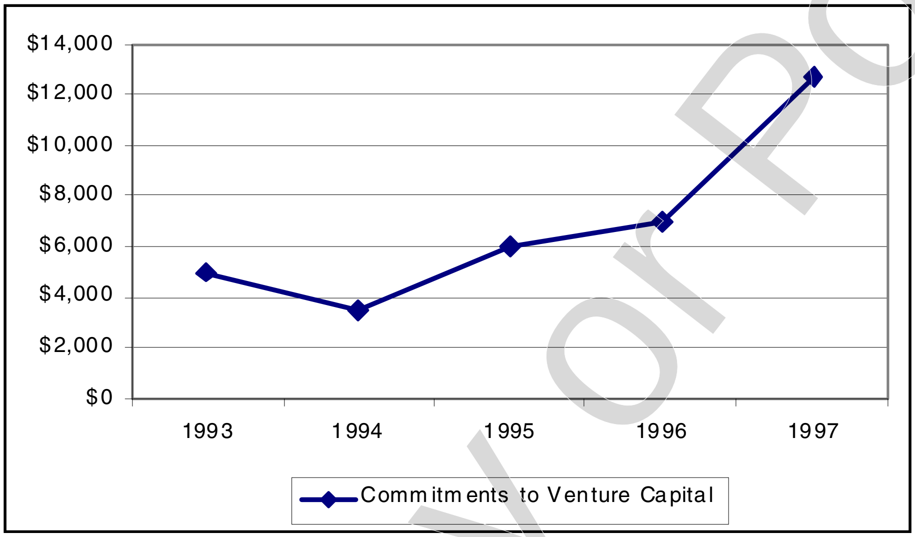
We are looking forward to working together.

Sincerely,

Jonathan M. Guerster
Associate
Charles River Ventures

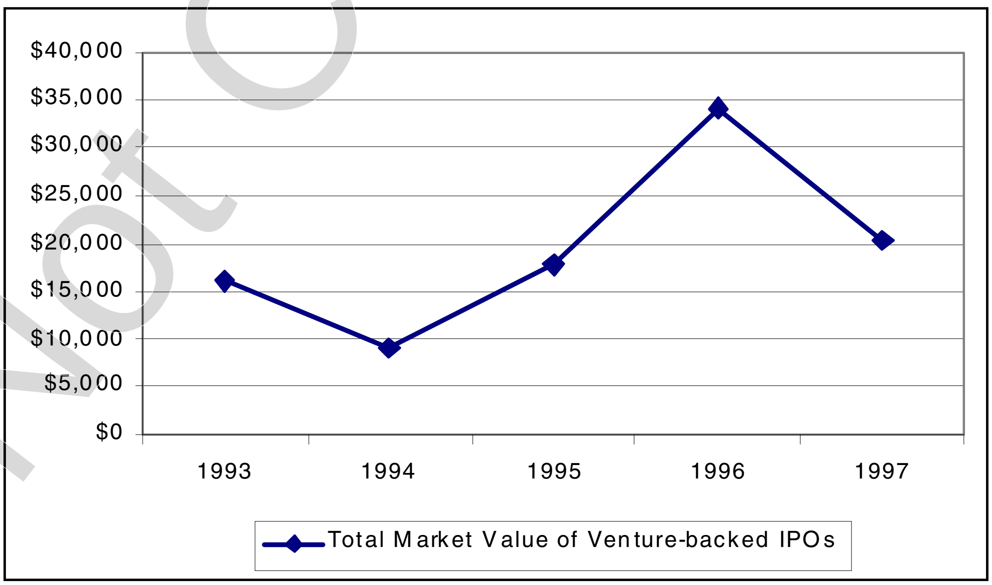
Source: Company documents.

Exhibit 8 Venture Capital Commitments



Source: Compiled from Asset Alternatives.

Exhibit 9 Venture Capital-backed IPOs



Source: Compiled from Asset Alternatives.