

APRIL 2000

"THE INTERNET CHANGES EVERYTHING"

**Larry Ellison
Oracle Corporation**

"In 1385, on the eve of his victory over the Castilians, King James of Portugal addressed the 60 warriors he had just made knights. "Good my lords," he instructed, "this order of chivalry is so high and so noble, that he who is a knight should have no dealing with anything that is low, with vile things or with cowardice."

"Those were the days when men wore metal and honor was worth dying for, and when the king told you not to deal with anything low, you knew what he was talking about. Back then, people knew who was high-the aristocrats and who was low: the peasants. They knew which professions were high and which were low. These hierarchies have now been blown to smithereens. The old cultural arbiters have lost their authority, and now we live in a hopeless mishmash of brands, Web pages, advertising images, performance art and cross-referencing cultural signifiers." The Internet has changed everything and continues to level the playing field by democratizing the dissemination of information for the wider populace."

**Nobrow
John Seabrook, 1999.**

Predicting the bursting of the internet bubble has become a popular hobby for pessimists and non-believers. The group includes not just embittered investors that missed the technology boom, but seasoned professionals as well. The venture capital and investment banking businesses are partially to blame: They have oversupplied the market with young and unproven high flyers for the sake of the millions upon millions of fees earned as part of the investment process. Investors should look for well-managed companies with plausible and realistic business models. We at **Wellfleet Partners, Inc.** ("**WPs**") look in particular for "VIRAL" sites, sites that become more valuable to their users as their numbers increase. This creates a compounding value proposition by building critical mass on the web. More users beget more content which in turn begets more users!

"SUCCESS COMES TO THOSE WHO RECOGNIZE AND CORRECTLY VALUE RISK."

**Popular Delusions and the Madness of Crowds
Charles McKay, 1841**

It is far more common to hear firms speak about their enormous successes rather than their mistakes, it is human nature. Venture capital, which is inherently more risky than investing in publicly listed companies, has far superior upside! We want to suggest several tried and true tested ways to reduce the likelihood of failure when in investing in venture capital: First, make sure either you or the investment consultants you are relying upon to assist you in your decision-making process has experience and an area of expertise in the industry or market you are investing in; Second, avoid concentration of your portfolio in one particular area. There are times an entire industry can fall out of favor. Diversification means numerous investments AND disparate industries; Third, just as the primary rule for real estate is location, location, location, in venture capital it is management, management, management! Even the best business models can fail if management lacks the requisite experience, or is unprepared for what lies ahead; and finally, do not allow emotions to rule the day. Just because you might be familiar with management or the Angels you are investing alongside have prior success does not insure future success. Every investment stands on its own! I have included an interesting recent article from the Wall Street Journal about Venture Capital for your reading pleasure.

"FINANCIAL, ECONOMIC AND POLITICAL ISSUES ALL INTERRELATE IN A SEAMLESS WEB."

**The Lexus and the Olive Tree
Tom Friedman**

Entrepreneurship and cycles of rapid innovation is flourishing as never before. Most of the economic wealth on the internet has been generated by startups, as opposed to established companies. The startup offers flexibility, uninhibited partnership dynamics and other competitive advantages. New entrants depend upon velocity of thought and action and carry none of the impediments of existing business franchises. The internet's greatest asset is intellectual property which does not require physical assets or a huge capital base to gain adoption. Net companies thrive on partnerships or, as is referred to in the internet world, "**Keiretsus**" or "**Zaibatsus**". The latter two terms emanate from Japanese economic history and describe groups of aligned companies, often with one bank or institution at the core, having cross-ownerships and tight links acting as a single entity. VC's such as Internet

Capital Group, Divine Interventures and in a much smaller way, **WPs**, utilize their portfolio companies to benefit from their own "**Keiretsu**" or "**Zaibatsu**."

Startups are the engines of innovation of our time. With that being said, the most lucrative avenue for venture capitalists and Angel Investors has been in "incubating" startups. Although the risk is highest, so too is the potential reward. To that end, we are pleased to announce the formation of **Wellfleet Incubators, Inc.** ("**WI**"), a wholly-owned subsidiary of **WPs**. This subsidiary will manage the process of incubation for the two current companies that have retained us as well as appropriate candidates in the future and allow **WPs** to continue to operate as it has in the past. We have been retained to incubate **Aluminium.com, Inc.** and its wholly-owned subsidiary **CommFin** ("Commodity Finance") and are in negotiations with two other start-up or early stage companies. We are equally pleased to announce that Jeff Mann, esq., previously a member of the corporate finance and investment banking department of Kaye, Scholer, LLP, one of New York's preeminent law firms and an original member of our Advisory Board, has agreed to join us as President of **WI** and Corporate Counsel of **WPs**. His first order of business will be to assist in the incubation of **CommFin**, a brainchild of our management. For more information on **WI**, please see our new brochure.

This was a very exciting and monumental past quarter for many members of our portfolio: Two private companies that we previously invested in, **LivePrint.com** and **HomeworkCentral.com** respectively were acquired by, or merged with **Kinkos.com** and **Big Chalk.com**, wholly-owned subsidiaries of **Kinkos, Inc.** and **Bell & Howell** (NYSE "BHW"). We expect both of the acquirers to go public in the summer. A third, **Savoir Technology Group, Inc.** (NASDAQ Symbol "SVTG") was acquired by **Avnet, Inc.** (NYSE "AVT"). Our sincere congratulations to Scott Munro, the Company's Chairman & CEO and Member of our Advisory Board; Two other companies, **Register.com** ("RCOM") and **Go America**, ("GOAM") the 2nd and 3rd companies that my partner Zachary Prenskey invested in early in his career, either went public or is about to go public in gigantic initial public offerings. Both have greater than \$1 billion market values!; Two companies, **Arvee Systems, Inc.** and **DataRover Mobile Systems, Inc.** changed their names to **MyDocuments.com** and **Icras, Inc.** respectively and unveiled revised and extremely exciting new business models. Our investors, through M.S. Farrell, closed a second private placement for **MyDocuments.com** and we are shortly closing on a third round to fund its future contemplated IPO; **LiveMind.com** closed its Series B round with a prestigious New York based VC at more than twice the value of the Series A and is working upon a Series C already at a significantly higher valuation; **HallofSports'** website went live, congratulations to Seth Fortgang for both this as well as his recent wedding; Two publicly traded companies in our portfolio, **A.B. Watley Group, Inc.** ("ABWG") and **Synergy Brands, Inc.** ("SYBR") continue to hit new highs, announced record revenues and new strategic alliances. To Harry Simpson, President & COO of ABWG and a member of our Advisory Board and Mair Faibish of SYBR, keep up the great work!; and Finally, in our most important transaction to date, **Aluminium.com**, a company we incubated from scratch, closed its \$25M Series B round at 8.5X the original Series A valuation with lead investor Divine Interventures. Bear Stearns, Metropolis Capital and **Wellfleet** participated in this round as well. They unveiled their beta web site at a recent industry trade show in Las Vegas to rave reviews and expect to go live within the month. Sincere kudos to our dear friend Alan Kestenbaum, Chairman & CEO of **Aluminium.com**. These are indeed exciting times. To all these companies and their management, jobs well done!

"No pain, no palm; no thorns, no throne; no gall, no glory; no cross, no crown."

William Penn

Finally, today marks the 2nd year anniversary of **WPs**., In our inaugural two years, we have grown at a geometric rate and made important, valued contacts. As our web site indicates, our portfolio increases almost monthly and we have surrounded ourselves with excellent management and successful entrepreneurs. We owe much to many, especially our valued Advisory Board Members Messrs. **Lippe, Luxenberg, Munro, Simon, Mann, Levy** and **Simpson**, our first associate and future partner **Jonathan Bennett** and our two devoted executive assistants **Dolores** and **Linda**. Our professional corporate friends such as DS Capital, Dot Com Ventures in San Francisco, PM Capital, Ovation Capital, Vision Capital and Select Mortgage make each deal and transaction more enjoyable than the next. Lastly, and most important, Zachary, John and I want to thank our families for their constant love, support and patience. Enjoy the spring and G-d Bless.

Sincerely,

Mark I. Lev, Esq.
Managing Director
Wellfleet Partners, Inc.

Zachary Prenskey
Managing Director
WellfleetPartners, Inc.

Jonathan Bennett
Vice President
Wellfleet Partners, Inc.

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