

Palo Alto Venture Partners
Annual Report

optionone



FINANCIAL STATEMENTS

For the Period Ended September 30, 2006



 **PALO ALTO**
VENTURE PARTNERS

TO LIMITED PARTNERS

Calendar 2006 is highlighted by a new investment in DVDPlay at the start of the year, the acquisition of Employease in October, and the announcement of the definitive agreement for the acquisition of one of our oldest investments, PostX, at the end of the year. DVDPlay and PostX are Fund II companies, and Employease was a Fund I company.

As of the end of the year, Fund II has ownership in five companies, each of which is producing revenue to varying degrees, and outstanding capital calls and cash in excess of \$2x million. With almost perfect clockwork, Fund I completed all of its investment activity just as the ten-year term of the Fund ended, and remains open merely to see-through various residuals such as an approximately \$130 thousand escrow associated with Employease.

Additionally, days after the start of 2007, a definitive acquisition agreement of the company that acquired PostX, was announced by Cisco, for cash and stock valued at \$830 million.

2006 is also the year where we finally and happily feel confident that, for many years to come, both technology and technology venture capital are industries on the up-tick. In particular, fundamentals for new waves of innovation, entrepreneurial caliber in the deal flow that is good as it has ever been, and customer receptiveness to it, leads us to believe that entrepreneurs and investors can and will be rewarded for developing these innovations, with one condition that they build the startups and manage investment funds in accordance with the environment that exists today.

A detailed description of the holdings of PAVP during 2006 follows.

J. Neil Weirtraut

Peter H. Ziebelman



DVDPlay is in the convenience business. DVDPlay operates a network of kiosks located in supermarkets and other sites convenient to consumers, for renting movies.

The business exploits the control and flexibility of the Internet-based communications and control, and economics of outsourced field operations to deploy and run a nationwide network of kiosks that is more convenient and less costly for consumers to view movies at their home than every other alternative.

In January 2006, and after developing the technology and business partnership for years and through more than \$20 million of capital, a new and veteran CEO reorganized and recapitalized the business.

PAVP was one of four investor syndicate that capitalized the company with more than \$20 million in April. Since then, the company has deployed kiosks at a rate of 40 per week, ending 2006 with more than 390 sites.



CEO:	Chuck Berger
Investors:	PAVP El Dorado Emergence Vanguard
PAVP Fund	II
PAVP's investment:	\$3.6 million
Total capital:	\$21 million
Stage:	Early revenue
PAVP Board Member:	J. Neil Weintraut



ANNUAL MEETING

February 7, 2007



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...ALSO VENTURE PARTNERS HAS BEEN...
...ID FOCUS TO THE TYPES OF ENT...
...PUBLIC MARKET CALIBER COMPANIES...
...ENTREPRENEURS, PORTFOLIO COMPANIES...
...BEEN PROVIDING THE INVESTMENT...
...EXPERIENCE SELECT...
...INFORMATION TECHNOLOGY THAT...
...PRODUCED OUTSTANDING RESULTS...
...PALO ALTO VENTURE PARTNERS HA...
...FLEXIBILITY AND FOCUS TO THE TYPES OF...

AGENDA



- 10101 The Fund
- 10101 Company Presentations
- 10101 Lunch at Spago's

FUND OUTLOOK

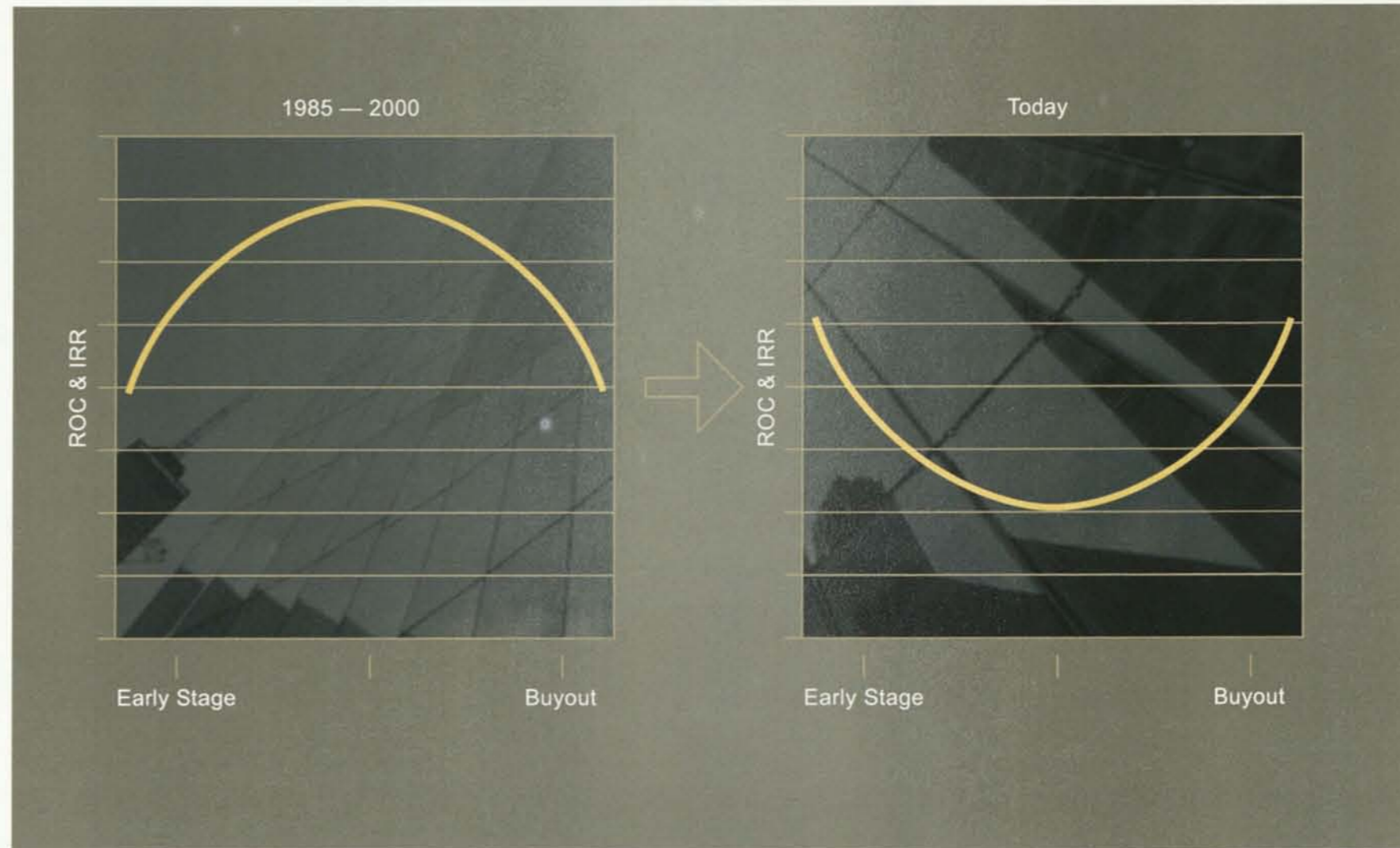
Fund I

- \$161 Million Returned to LPs on \$54 Million; 91% IRR
- Eleven Companies Total
- Four IPOs & Two Significant Acquisitions
- On wrap-up path

Fund II

- '99 Fund — \$1 Million Returned to LPs on \$99 Million; -32% IRR
- 13 Companies ...
- One Distribution Pending
- Four Companies Remaining

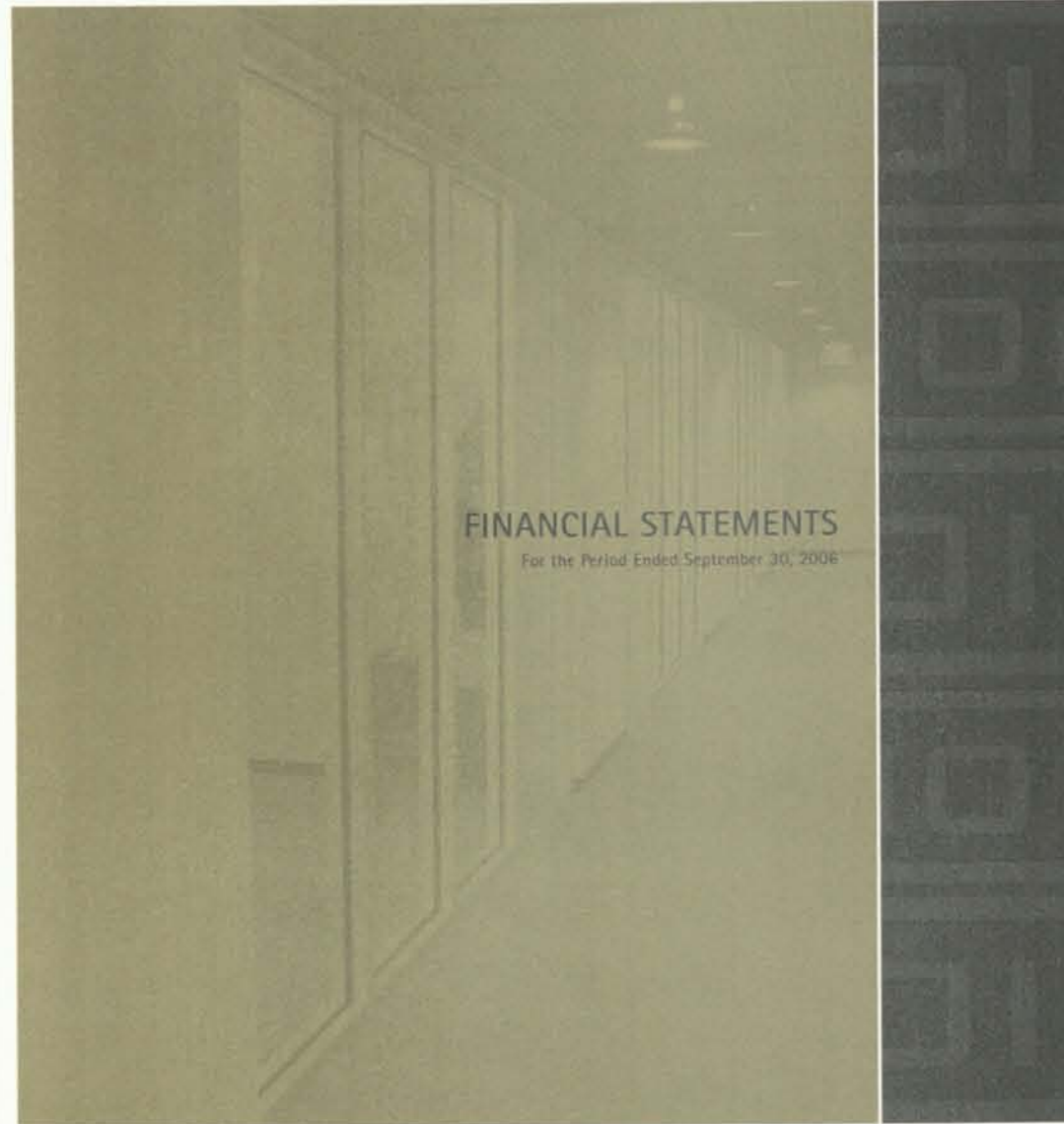
THE VC INDUSTRY



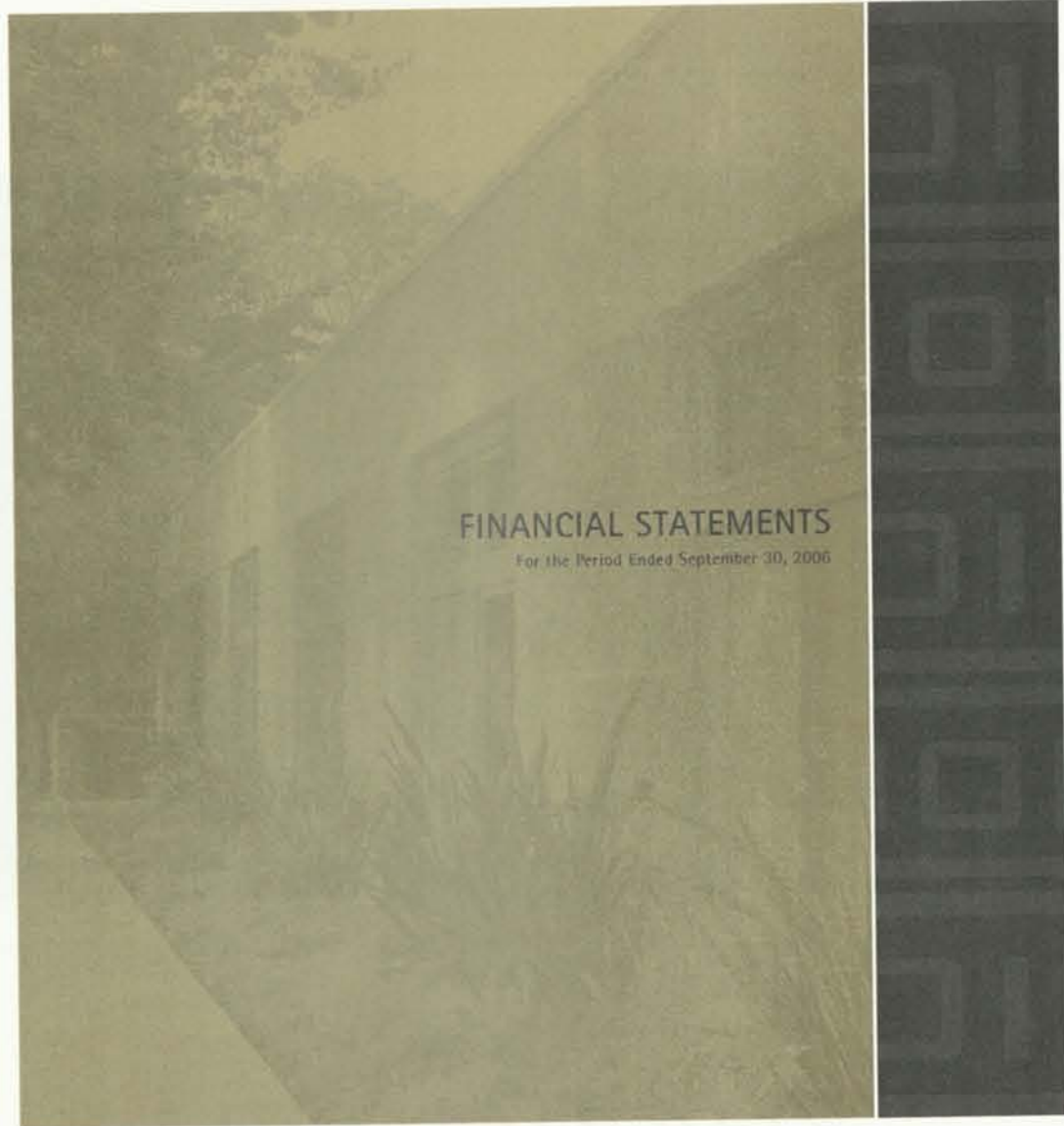
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Graph Slide

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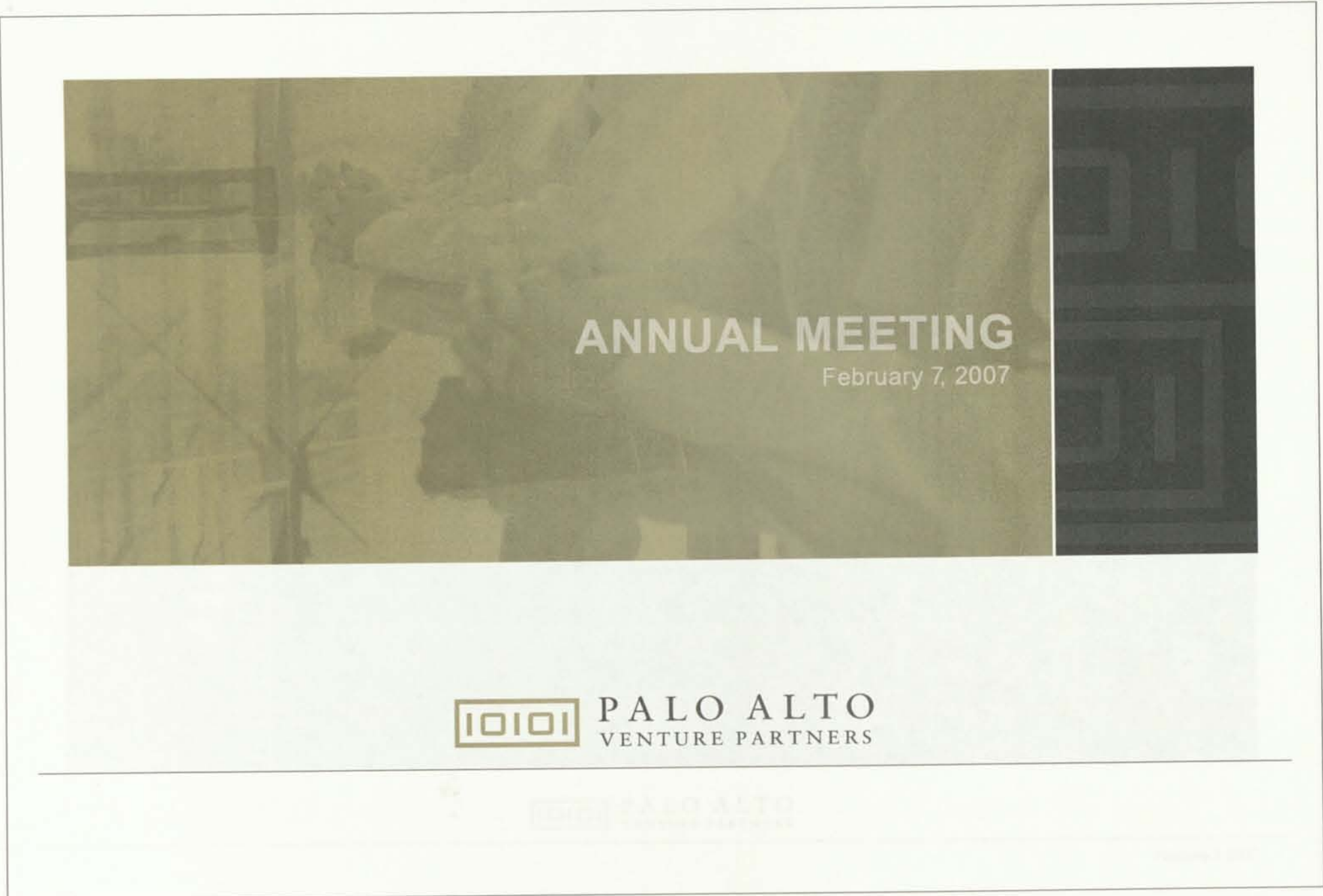
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The Fund

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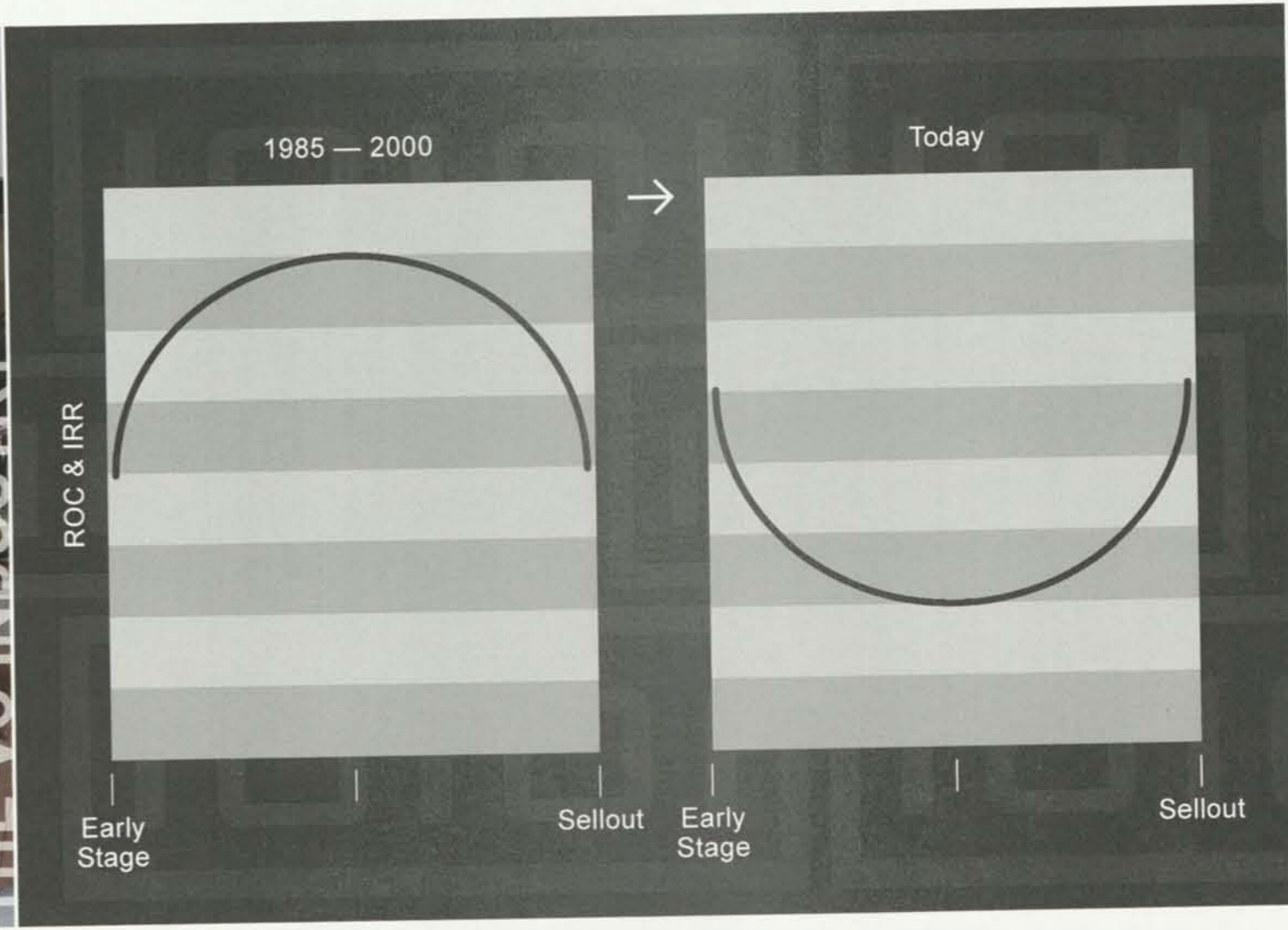


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 PALO ALTO
VENTURE PARTNERS

February 7, 2007

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FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2006



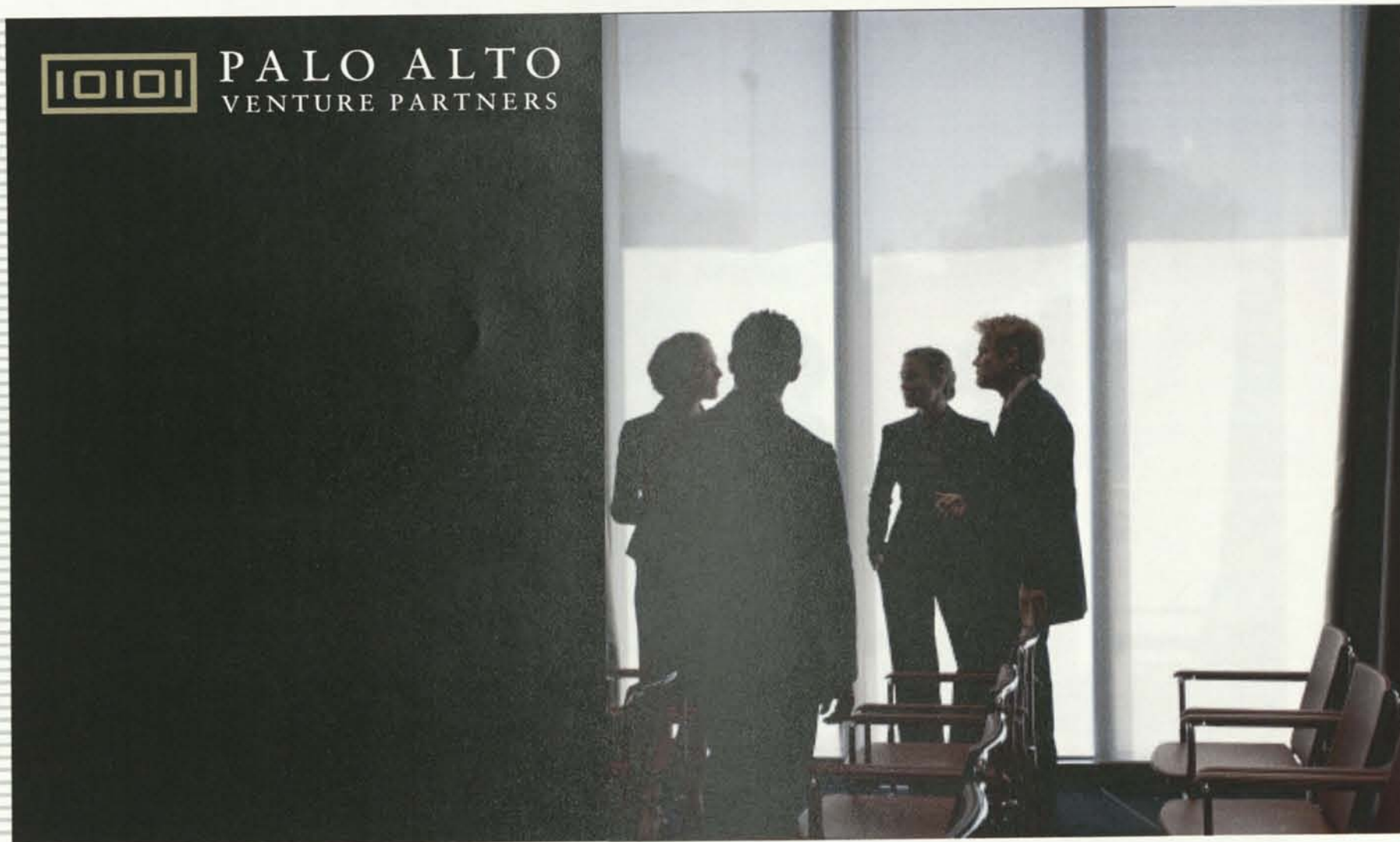
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FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2006



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ANNUAL MEETING February 7, 2007





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