



National Venture Capital Association



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VENTURE-BACKED IPOs INCH FORWARD IN Q2 2006; ACQUISITIONS REMAIN STABLE

Industry Association Still Wary About Health of US Public Markets

New York, NY- July 5, 2006 – Nineteen venture-backed companies raised \$2.0 billion through initial public offerings (IPOs) on US exchanges in the second quarter of 2006, according to the Exit Poll report by Thomson Financial and the National Venture Capital Association (NVCA). This volume represents a 90 percent increase from the first quarter of 2006 when ten venture-backed companies went public. It is also near double the volume from a year ago when ten companies went public during the same period. In addition, there were 86 venture-backed acquisitions with a disclosed value of \$3.2 billion reported in the second quarter.

Venture-Backed Liquidity Events by Year/Quarter, 2001-2006

Quarter/Year	Total M&A Deals	M&A Deals with Disclosed Values	*Total Disclosed M&A Value (\$M)	*Average M&A Deal Size (\$M)	**Number of IPOs	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
2001	353	165	16,798.9	101.8	41	3,489.9	85.1
2002	318	151	7,916.4	52.1	24	2,473.5	103.1
2003	293	123	7,726.1	62.8	29	2,022.7	69.7
2004-1	80	45	3,921.0	87.1	13	2,721.1	209.3
2004-2	89	48	4,514.6	94.1	29	2,077.8	71.6
2004-3	87	47	4,142.8	88.1	24	3,225.6	134.4
2004-4	84	46	2,862.2	62.2	27	2,990.4	110.8
2004	340	186	15,440.6	83.0	93	11,014.9	118.4
2005-1	82	46	4,364.9	94.9	10	720.7	72.1
2005-2	80	36	4,791.0	133.1	10	714.1	71.5
2005-3	98	47	4,374.8	93.1	19	1,458.1	76.7
2005-4	86	39	2,563.7	65.7	17	1,568.1	92.2
2005	346	168	16,094.4	95.8	56	4,461.0	79.7
2006-1	101	47	5,382.4	114.5	10	540.8	54.1
2006-2	86	34	3,244.6	95.4	19	2,011.0	105.8
2006	187	81	8,626.9	106.5	29	2,551.8	88.0

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*Only accounts for deals with disclosed values

**Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile.

“The growth in IPO volume is encouraging, but we certainly are not out of the woods yet,” said Mark Heesen, president of the NVCA. “We will need to see these levels continue to increase throughout the rest of the year to characterize the US public markets as available to venture-backed companies. These companies now have a multitude of exit and liquidity options – acquisitions, foreign exchanges, and buyout

rounds. A US IPO is still not a viable option for many of these emerging enterprises. We not only need to see more companies going public, but more companies going public *successfully* if we expect others to follow suit.”

IPO Activity Overview

The technology sector had eight companies raise a total of \$1.4 billion in the second quarter. The largest IPO of the second quarter was the \$531 million offering from Vonage Holdings Corporation. The New Jersey-based provider of digital telephone service via the Internet priced 31.3 million shares at \$17, the largest public offering of a venture-backed company since October 2004. Vonage was backed by New Enterprise Associates, Bain Capital, 3i, Meritech Capital Partners, and Institutional Venture Partners.

The Life Sciences sector led the IPO activity by pricing nine venture-backed IPOs raising a total of \$452.2 million in the second quarter. The largest IPO in the Life Sciences sector was the \$106.5 million offering from Northstar Neurosciences, Inc., a Seattle, Washington-based medical device company backed by Mayfield Fund, Domain Associates, Canaan Partners, and AEA Investors.

Along with the large jump in IPO volume, the venture-backed companies that went public during the second quarter were also the beneficiaries of increased offering sizes and post-offering values, both at their highest levels since the fourth quarter of 2004. For the rolling 12 month period ending June 30, 2006, 52% of the companies that went public are currently trading above their offering price.

In addition to the IPOs completed this quarter, there are currently 41 venture-backed companies “in registration” with the United States Securities and Exchange Commission. These companies have filed with the SEC in 2005 or 2006 and are now preparing for their initial public offerings. This compares favorably to the 24 companies in registration at the end of the first quarter of 2006.

In addition to the 19 venture-backed companies that went public on US exchanges, three companies backed by US venture capitalists successfully went public on foreign exchanges, two on the London AIM and one on the London Stock Exchange.

Industry Breakdown

		Q2 2006	
Industry		*Number of Venture-Backed IPOs in the U.S.	Total Venture-Backed Offering Size (\$M)
Technology	Internet Specific	3	742.3
	Communications/Media	1	345.9
	Computer Software	3	222.1
	Semiconductors	1	49.5
	TOTAL	8	1,359.8
Life Sciences	Medical/Health	6	329.8
	Biotechnology	3	122.4
	TOTAL	9	452.2
Other	Non-high Technology	2	198.9
	TOTAL	2	198.9
TOTAL		19	2,011.0

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*Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile

Merger and Acquisition Overview

Although down from first quarter volume, second quarter results were comparable with 2005 quarterly activity. The average disclosed deal size was \$95.4 million, a slight decrease from first quarter's average, but in line with the average deal size for 2005. Median deal size remained strong in the first quarter, with a median disclosed value of \$55.0 million. This compares to a median disclosed deal size of \$67.5 million in the first quarter, and \$31.0 million in the fourth quarter of 2005.

The Technology sector continued to dominate the venture-backed M&A landscape, with 74 deals and a disclosed value of \$2.6 billion. Within Technology, the Computer Software sector had 34 transactions, followed by the Internet Specific sector with 24 deals. Despite only six companies (four with disclosed values) acquired during the quarter in the Communications/Media sector, the sector lead all Technology sectors with \$804.7 million in total disclosed deal value. Eight Life Sciences companies were acquired, with a disclosed deal value of \$512.0 million.

The largest disclosed deal of the quarter was the \$431 million acquisition of assisted living facilities operator Hearthstone Assisted Living, Inc. by Nationwide Health Properties in June. The second largest deal was the \$420 million acquisition of open source software developer JBOSS, Inc. by Red Hat, Inc.

Venture-Backed M&A Industry Breakdown

		Q2 2006		
Industry		Number of Venture-Backed M&A deals	Number of Venture-Backed M&A deals with a disclosed value	Total Disclosed Venture-Backed Deal Value (\$M)
Technology	Communications/Media	6	4	804.7
	Internet Specific	24	9	716.0
	Computer Software	34	10	704.6
	Semiconductors	6	2	306.9
	Computer Hardware	4	1	72.0
	TOTAL	74	26	2,604.2
Life Sciences	Medical/Health	6	5	484.0
	Biotechnology	2	2	28.0
	TOTAL	8	7	512.0
Other	Non-high Technology	4	1	128.5
	TOTAL	4	1	128.5
TOTAL		86	34	3,244.7

Source: Thomson Financial & National Venture Capital Association

Returns on total investments in the second quarter mirrored those of the first quarter. Deals bringing in the top returns, those with values greater than 4x the venture investment, accounted for 29% of the total. This compared to 33% last quarter. Conversely, those deals returning less than the amount invested accounted for 29% of the quarter's total, up from 17% of the total last quarter.

Analysis of Transaction Values versus Amount Invested

Relationship between transaction value and investment	Q1 2006	Q2 2006
Deals where transaction value is less than total venture investment	8	9
Deals where transaction value is 1-4x total venture investment	23	13
Deals where transaction value is 4x-10x total venture investment	7	5
Deals where transaction value is greater than 10x venture investment	8	4
Total Disclosed Deals	46**	31**

Source: Thomson Financial & National Venture Capital Association

** Disclosed deals that did not have a disclosed total investment amount are not included.

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The National Venture Capital Association (NVCA) represents approximately 480 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2004 Global Insight study, venture-backed companies accounted for 10.1 million jobs and \$1.8 trillion in revenue in the United States in 2003. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.