Embargo - FINAL 7/23/04

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VENTURE CAPITAL HITS TWO-YEAR HIGH IN Q2 2004 WITH $5.6 BILLION INVESTED

-- Early Stage and First-Time Financings Begin to Rise --

Washington, D.C., July 27, 2004 – The steady upward trend in venture capital continued in the second quarter of the year with investments of $5.6 billion going into 761 companies according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. This figure compares to $5.0 billion invested in the first quarter of 2004 and $5.4 billion in the fourth quarter of 2003. Over the past two years, quarterly investing has drifted upward at a deliberate pace, ranging from $4.3 billion to this quarter's high of $5.6 billion.

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, said: "We see 'refined optimism' in the market. Investment levels are realistic, not exuberant. There is a more balanced mix of investing between earlier and later stage companies. And, the IPO window is open, though temperate. The pieces are in place for solid years ahead."

Mark Heesen, president of the National Venture Capital Association, observed: "Venture capitalists are responding to the recent spate of positive indicators in a very measured and calculated manner. And, their continued discipline is critical to the performance of the asset class going forward. After months of anecdotal evidence that VCs are investing in more early stage and first-time deals, it is encouraging to see the statistics indicating that we are moving back to our roots: funding exciting, cutting edge companies early on and over the long term."

Stage of Development and 12-Month Average Valuations

A total of 229 companies in the Early stage of development were funded in Q2 2004, the highest number since Q2 2002. Proportionately, they accounted 30% of all companies, the highest percentage since Q1 2001. And, Early stage companies captured $1.17 billion or 21% of all venture capital in the period, well above recent quarters. Average funding per company of $5.1 million exceeded the $4.6 million average over the prior four quarters. Further, the average valuation of Early stage companies inched upward after three years of decline. The average post-money valuation for the 12 months ending Q1 2004 was $13.1 million, compared to $12.6 million for the period ending Q4 2003. (Note that valuation data lags investment data by one quarter.)

Expansion stage companies, which typically account for the largest total dollars and number of deals increased slightly, as well. Expansion stage funding was $2.8 billion in Q2 2004 or 50% of all investing, compared to $2.6 billion and 51% in Q1 2004. Average funding per company at $8.1 million exceeded the $7.5 million average over the prior four quarters. Valuations rose more significantly. The average post-money valuation for the 12 months ending Q1 2004 was $50.3 million, compared to $41.9 million for the period ending Q4 2003.

Later stage funding was flat. Investments in Q2 2004 were $1.6 billion or 28% of all investing versus $1.6 billion and 31% of all investing last quarter. Average funding per company was $11.3 million, up from the $9.6 million average of the last four quarters. Valuations also increased. The average post-money valuation for the 12 months ending Q1 2004 was $71.8 million, compared to $61.3 million for the period ending Q4 2003.

According to Jesse Reyes, vice president at Thomson Venture Economics, “The increase in early stage fundings is a promising sign that older companies already in portfolios are now healthier and may be self-sustaining. And, new investment can be focused on emerging companies and technologies. Increased valuations across the board are probably linked to better equity markets in the first half of the year, and robust companies in the investment pipeline.”

First-Time Financings

After languishing at historically low levels, companies receiving their first round of venture capital rebounded in Q2 2004 to their highest level in two years. A total of $1.2 billion or 21% of all venture capital went to these companies, compared to $981 million and 19% of fundings in Q1 2004. In terms of number of companies, 208 first-timers accounted for 27% of all companies receiving financings in the second quarter, up from 172 and 25% of all companies in the previous quarter. Average funding per company was essentially flat at $5.6 million reflecting continued emphasis on capital efficiency.

First-time fundings in the Life Sciences sector jumped significantly in dollars invested with $232 million this quarter compared $142 million in Q1 2004. But, the number of new Life Sciences companies was flat at 39. The number of Software companies increased from 42 in the first quarter to 51 in Q2 2004. At the same time, the dollar amount of funding fell from $290 million to $250 million in Q2 2004.

No other industries demonstrated a marked change from recent trends with the exception of an unusually large first-sequence deal in the Media & Entertainment industry and drop in the Semiconductor industry attributable to relatively smaller first round dollar amounts.

Sector And Industry Analysis

The Life Sciences sector (Biotechnology and Medical Devices, together) continued to dominate other industries as it has for the past eight consecutive quarters. Investments in the sector totaled $1.41 billion or 25% of all venture capital. Proportionately, Life Sciences investing remained near historical highs.

Compared to the prior quarter, Biotechnology decreased slightly to $923 million or 17% of all investing. Medical Devices jumped 40% to $485 million or 9% of all dollars. A total of 85 Biotechnology and 70 Medical Device companies were funded during Q2 2004.

The Software Industry held on to the top slot in the second quarter of 2004 as the single largest industry category. Software companies garnered $1.2 billion going into 212 companies; both figures were comfortably above the prior quarter. The decline abated in the Networking industry with 44 companies getting $459 million in mostly follow-on rounds. The Telecommunications industry did not fair as well with a decline from Q1 2004 to $518 million going to 59 companies in Q2 2004, again mostly in follow-on rounds.

Increased levels of investing were scattered across a variety of other industry segments, accounting for the overall rise in total investing. The Media & Entertainment industry more than doubled to $346 million on the strength of two very large deals. Semiconductors increased 17% to $437 million. Other changes from the prior quarter were less dramatic.

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Note to the Editor
When referencing information included in this release or other venture capital investment information produced by the three MoneyTree Alliance partners, the information should be cited in the following way: "The MoneyTree™ Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association", or "PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey". After the first reference, subsequent references may refer to PwC/TVE/NVCA MoneyTree Survey, PwC/TVE/NVCA or MoneyTree Survey. Charts and tables displaying the data are sourced to PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey. After the first reference, subsequent references may refer to PwC/TVE/NVCA MoneyTree Survey, PwC/TVE/NVCA or MoneyTree Survey.

About the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association Money Tree Survey

The MoneyTree™ Survey measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. The survey includes the investment activity of professional venture capital firms with or without a US office, SBICs, venture arms of corporations, institutions, investment banks and similar entities whose primary activity is financial investing. Where there are other participants such as angels, corporations, and governments in a qualified and verified financing round the entire amount of the round is included. Qualifying transactions include cash investments by these entities either directly or by participation in various forms of private placement. All recipient companies are private, and may have been newly-created or spun-out of existing companies.

The survey excludes debt, buyouts, recapitalizations, secondary purchases, IPOs, investments in public companies such as PIPES (private investments in public entities), investments for which the proceeds are primarily intended for acquisition such as roll-ups, change of ownership, and other forms of private equity that do not involve cash such as services-in-kind and venture leasing.

Investee companies must be domiciled in one of the 50 US states or DC even if substantial portions of their activities are outside the United States.

Data is primarily obtained from a quarterly survey of venture capital practitioners. Information is augmented by other research techniques including other public and private sources. All data is subject to verification with the venture capital firms and/or the investee companies. Only professional independent venture capital firms, institutional venture capital groups, and recognized corporate venture capital groups are included in venture capital industry rankings.

MoneyTree Survey results are available online at www.pwcmoneytree.com, www.ventureeconomics.com, and www.nvca.org.

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