

March 2009

Dear Reader:

On behalf of the National Venture Capital Association board of directors and staff, we are pleased to present you with the latest statistics that describe the activity of the venture capital industry in the United States. These statistics reflect yet another all-time high level of survey participation by venture capital practitioners. While accurately tracking the inputs into this economic growth engine is important, these dollars represent a small portion of what many of these companies have and will contribute to the United States economy in terms of revenue, employment, and quality of medical care and living.

The statistics gathered and tracked by Thomson Reuters for ThomsonONE.com (VentureXpert). and this Yearbook are essential to enabling analysis of venture capital by policy think tanks and economists for use by government officials and foreign governments. For example, recent analysis of Thomson Reuters data by Global Insight shows that while venture capital investment represents 0.2% of US GDP, the revenue of companies created by the industry represented 17.6% of GDP in 2006. For every venture capital dollar invested in 1970-2001, there was \$7.90 in US revenue during 2006 in those companies. In these companies, for every \$28,463 of venture capital invested in 1970-2001, there was one ongoing job in the year 2006.

Venture capital is unique. NVCA believes that it is more important than ever to effectively tell the story of venture capital, differentiate it from other forms of alternative assets, and explain what's needed to continue creating great, leading-edge companies. We believe that a strong venture capital industry is essential to America's future and improving our quality of life.

Your comments are always welcome at research@nvca.org.

Very truly yours,

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2009

National Venture Capital Association

Yearbook

For the National Venture Capital Association

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National Venture Capital Association 2009 Yearbook

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What is Venture Capital?

Venture capital has enabled the United States to support its entrepreneurial talent and appetite by turning ideas and basic science into products and services that are the envy of the world. Venture capital funds and builds companies from the simplest form – perhaps just the entrepreneur and an idea expressed as a business plan – to freestanding, mature organizations.

Risk Capital for Business

Venture capital firms are professional, institutional managers of risk capital that enables and supports the most innovative and promising companies. This money funds new ideas that could not be financed with traditional bank financing, that threaten established products and services in a corporation, and that typically require five to eight years to be launched.

Venture capital is quite unique as an institutional investor asset class. When an investment is made in a company, it is an equity investment in a company whose stock is essentially illiquid and worthless until a company matures five to eight years down the road. Follow-on investment provides additional funding as the company grows. These “rounds,” typically occurring every year or two, are also equity investment, with the shares allocated among the investors and management team based on an agreed “valuation.” But, unless a company is acquired or goes public, there is little actual value. Venture capital is a long-term investment.

More Than Money

The U.S. venture industry provides the capital to create some of the most innovative and successful companies. But venture capital is more than money. Venture capital partners become actively engaged with a company, typically taking a board seat. With a startup, daily interaction with the management team is common. This limits the number of startups in which any one fund can invest. Few entrepreneurs approaching venture capital firms for money are aware that they essentially are asking for 1/6 of a person!

Yet that active engagement is critical to the success of the fledgling company. Many one- and two-person

Venture Capital Backed Companies Known for Innovative Business Models Employment at IPO and Now

Company	As of IPO	Current	# Change
The Home Depot	650	331,000	330,350
Starbucks Corporation	2,521	176,000	173,479
Staples	1,693	75,588	73,895
Whole Foods Market, Inc.	2,350	52,900	50,550
eBay	138	15,500	15,362

Venture Capital Backed Companies Known for Innovative Technology and Products Employment at IPO and Now

Company	As of IPO	Current	# Change
Microsoft	1,153	91,000	89,847
Intel Corporation	460	86,300	85,840
Medtronic, Inc.	1,287	40,000	38,713
Apple Inc.	1,015	35,100	34,085
Google	3,021	16,805	13,784
JetBlue	4,011	11,632	7,621

Source: IHS Global Insight. Current data is FY 2007 Year End Data

companies have received funding but no one- or two-person company has ever gone public! Along the way, talent must be recruited and the company scaled up. Ask any venture capitalist who has had an ultra-successful investment and he or she will tell you that the company that broke through the gravity evolved from the original business plan concept with the careful input of an experienced hand.

Deal Flows — Where The Buys Are

For every 100 business plans that come to a venture capital firm for funding, usually only 10 or so get a serious look, and only one ends up being funded. The venture capital firm looks at the management team, the concept, the marketplace, fit to the fund's objectives, the value-added potential for the firm, and the capital needed to build a successful business. A busy venture capital professional's most precious asset is time. These days, a business concept needs to address world markets, have superb scalability, be made successful in a reasonable timeframe, and be truly innovative. A concept that promises a 10 or 20 percent improvement on something that already exists is not likely to get a close look.

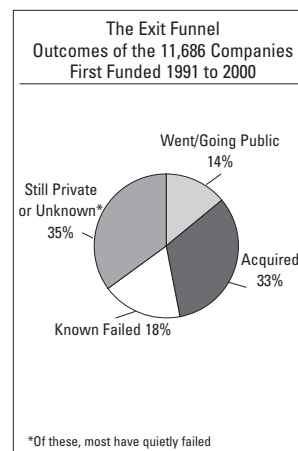
Many technologies currently under development by venture capital firms are truly disruptive technologies that do not lend themselves to being embraced by larger companies whose current products could be cannibalized by this. Also, with the increased emphasis on public company quarterly results, many larger organizations tend to reduce spending on research and development and product development when things get tight. Many talented teams have come to the venture capital process when their projects were turned down by their companies.

Common Structure — Unique Results

While the legal and economic structures used to create a venture capital fund are similar to those used by other alternative investment asset classes, venture capital itself is unique. Typically, a venture capital firm will create a Limited Partnership with the investors as LPs and the firm itself as the General Partner. Each “fund,” or portfolio, is a separate partnership. A new fund is established when the venture capital firm obtains necessary commitments from its investors, say \$100 million. The money is taken from investors as the investments are made. Typically, an initial funding of a company will cause the venture fund to reserve three or four times that first investment for follow-on financing. Over the next three to eight or so years, the venture firm works with the founding entrepreneur to grow the company. The payoff comes after the company is acquired or goes public. Although the investor has high hopes for any company getting funded, only one in six ever goes public and one in three is acquired.

Economic Alignment of all Stakeholders — An American Success Story

Venture capital is rare among asset classes in that success is truly shared. It is not driven by quick returns or transaction fees. Economic success occurs when the stock price increases above the purchase price. When a company is successful and has a strong public stock offering, or is acquired, the stock price of the company reflects its success. The entrepreneur benefits from appreciated stock and stock options. The rank and file employees throughout the organization historically also do well with their stock options. The venture capital fund and its investors split the capital gains per a pre-agreed formula. Many college endowments, pen-



sion funds, charities, individuals, and corporations have benefited far beyond the risk-adjusted returns of the public markets.

Beyond the IPO

Many of the most exciting venture capital backed companies left the venture portfolios after they went public. Far from being a destination, the IPO process provides needed growth capital for a growing company. A 2009 analysis by IHS Global Insight shows that more than 90% of the jobs at today’s venture backed public companies were created after it went public. That is, these companies on average are 10% of their mature size at the time they go public.

What’s Ahead

Much of venture capital’s success has come from the entrepreneurial spirit pervasive in the American culture, financial recognition of success, access to good science, and fair and open capital markets. It is dependent upon a good flow of science, motivated entrepreneurs, protection of intellectual property, and a skilled workforce.

The nascent deployment of venture capital in other countries is gated by a country’s or region’s cultural fit, tolerance for failure, services infrastructure that supports developing companies, intellectual property protection, efficient capital markets, and the willingness of big business to purchase from small companies.

Executive Summary

The year 2008 was a difficult year for the US venture capital industry in many ways. While overall fundraising and company investment each retreated from post-bubble highs in 2007, very bad exit opportunities stifled the forward progress of the large number of companies just reaching the maturity level at which they would typically go public or be acquired.

In the second quarter of 2008, no venture backed companies went public – a situation which had not occurred for over 30 years! In fact, only six venture-backed companies went public in 2008. Instead, these later stage companies needed large, later rounds of financing as well as the continued attention and support by the investing venture capitalists. The required time and capital made it difficult for the industry to turn its attention to launching the next generation of great companies. Nonetheless, over 1,100 new companies were added to venture fund portfolios during 2008.

The lack of distributions to the institutional investors who provide the capital to the industry have left these professional money managers with little capital to recycle back to the industry. The year started with a difficult fundraising environment for all but the most demonstrably promising funds and ended with tough conditions for all.

Even when this overview is being written several weeks into 2009, little has improved. Exits and fundraising remain challenging. But the industry is very much open for business. Reports from across the industry are that excellent teams are coming to venture firms with very strong business plans. That part of the venture capital ecosystem is working well.

The most recent industry performance index continues to show that over the long haul the industry pays 15-20% IRR to its investors. All indications are that this will continue. However, a continued poor exit market will stress returns both because of lower exit valuations and delayed realizations.

Introduction

The 2009 National Venture Capital Association Yearbook provides a summary of all of venture capital activity in the United States. This includes investments into portfolio companies to capital managed by general partners to fund raising from limited partners to valuations of companies receiving venture capital

Figure 1.0
Venture Capital Under Management
Summary Statistics

	1988	1998	2008
No. of VC Firms in Existence	377	624	882
No. of VC Funds in Existence	715	1,085	1,366
No. of Professionals	3,468	5,616	7,497
No. of First Time VC Funds Raised	15	58	44
No. of VC Funds Raising Money This Year	104	288	210
VC Capital Raised This Year (\$B)	4.4	29.7	27.9
VC Capital Under Management (\$B)	25.5	92.0	197.3
Avg VC Capital Under Mgt per Firm (\$M)	67.6	147.4	223.7
Avg VC Fund Size to Date (\$M)	34.7	60.6	104.4
Avg VC Fund Size Raised This Year (\$M)	42.3	103.1	132.9
Largest VC Fund Raised to Date (\$M)	1,175.0	5,000.0	5,000.0

investments to exits of the investments by either IPOs or mergers and acquisitions to performance of private equity funds with data from the Thomson Reuters Performance Database. The statistics for this publication were assembled primarily from the MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters and analyzed through the ThomsonONE.com (VentureXpert) database of Thomson Reuters, which has been endorsed by the NVCA as the official industry database.

Industry Resources

Venture capital under management in the United States by the end of 2008 decreased 24% from 2007 year-end levels because large funds, raised during 2000 (\$105 billion total raised) at the height of the bubble, rolled out of the industry's managed capital and were replaced with smaller and more targeted funds (\$28 billion raised in 2008). The overall contraction in capital under management is reflected in the anticipated decrease in active firms and funds. We

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expect further declines in the number of firms and funds from this current level as firms which most recently raised money and invested at the height of the bubble, wrap up their portfolios and exit the industry. At year end 2008, 882 venture firms managed 1,366 funds which had committed capital of \$197.3 billion.

Commitments

New commitments to venture capital funds in the United States decreased in 2008 to \$27.9 billion from their post-bubble record levels in 2007. In 2008, 210 funds got investor commitments — a decrease of 15%. The dollar amount of those commitments fell 21%. Most of the successful fundraising during 2008 occurred in the first nine months. That said, overall fundraising (new capital committed by investors) remained in line with the amount of previously-raised capital being deployed or invested by venture capitalists in companies. That is, new commitments of capital and capital deployed remained pretty much in balance.

As the economy worsened toward the end of 2008, many institutional investors (e.g., pension plans, endowments, money managers) saw the public portion of their portfolios fall and found themselves over-allocated to alternative asset classes including venture

capital. This “denominator” effect made it difficult for institutional investors to make any new commitments near year end 2008.

Investment

Venture capital investment in United States portfolio companies decreased 8% from the post-bubble high in 2007, but the total was still above 2006 levels. In 2008, venture capitalists invested \$28.4 billion dollars in 3,832 deals. This modest decline fol-

Figure 3.0
Capital Commitments to
U.S. Venture Funds (\$ Billions)
1980 to 2008

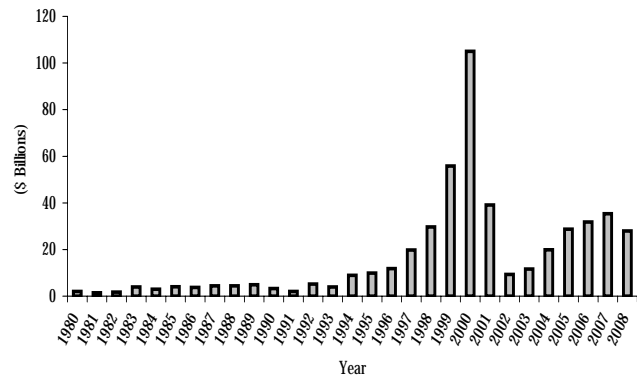


Figure 2.0
Capital Under Management
U.S. Venture Funds (\$ Billions)
1980 to 2008

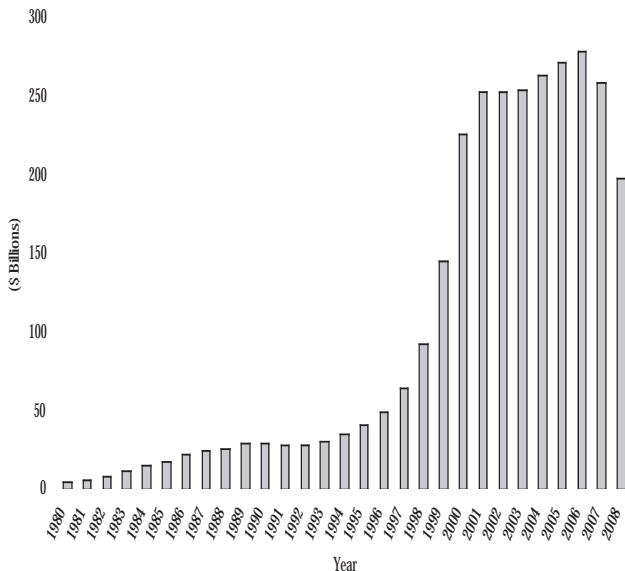
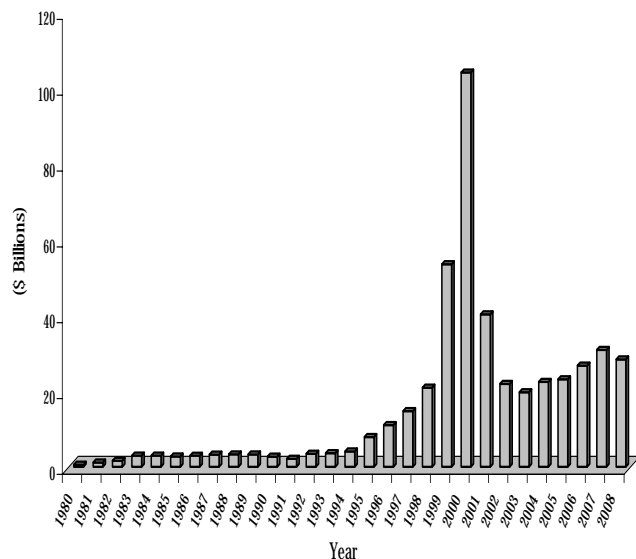


Figure 4.0
Investments
to Portfolio Companies (\$ Billions)
1980 to 2008



lows 4 consecutive years of modest increases.

Despite these global economic concerns, the United States venture capital industry invested in 1,179 first time companies in 2008. While this is below the level of the prior two years, new portfolio companies are being sought out and funded.

During 2008, a near-record number of later stage deals were done. This is not surprising because of a large number of portfolio companies reaching maturity with no or lousy exit opportunities open to them. Despite the time and capital commitments to these mature portfolio holdings, venture capitalists also invested in companies in the seed state and early stage at near post-bubble levels.

Portfolio Company Post-Money Valuations

Round valuations overall appeared to be significantly lower in 2008 than they were overall in the period 1995-2008. In 2008, the median financing round was at a reported \$13.3 million, compared with the recent history of \$30.0 million. The calculated average (or mean) round valuation, which of course can be affected by particularly large rounds, was \$46.7 million in 2008 versus \$72.9 million over the 14-year comparison period. Of those sectors with sufficient reported results, only two reported an increase in median round valuations: the media and entertainment sector and the medical devices and equipment sector.

Exits

The year 2008 was an awful year for venture-backed companies exiting through initial public offerings or acquisitions. Only six venture-backed companies went public and the proceeds from acquisitions dropped by more than 50%. This comes at a time when a record number of companies founded during or just after the tech bubble entered the “later stage” of maturity and, in more typical times, would have exited.

One has to go back to the 1970s to find years with fewer IPOs. The six companies which did go public brought in less than one-half billion dollars in proceeds. Of the six IPOs, two were Healthcare Services companies and two were in Medical Devices and Equipment. Of the 16

MoneyTree™ sectors, 12 saw no IPOs.

The number of venture-backed companies acquired during 2008 (335) declined from 2007 (378) to a level consistent with other post-bubble years. While 2007 was the post-bubble high water mark for strong acquisition exits, in 2008 the total disclosed proceeds dropped 59% to \$13.3 billion. While M&A exits were at best a mixed picture, 18% of those companies sold for more than ten times the total venture investment (TVI) in those companies.

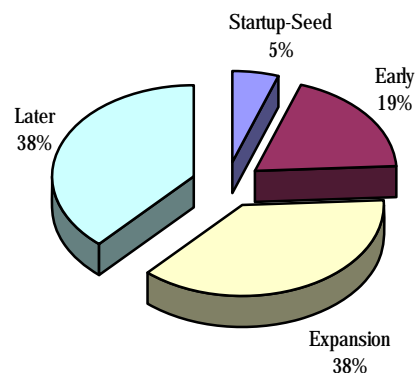
Performance

Over the long-term, venture capital funds have paid out a net 15-20% IRR to their investors. The most recent performance statistics confirm this. For the 20 year period ended on September 30, 2008, venture funds overall returned 17.0% annualized IRR. Among the fund segments, those designating themselves as early stage led the way with 21.6% annualized IRR. Shorter horizon returns are less significant. For exam-

Figure 5.0
2008 Investments
By Industry Class

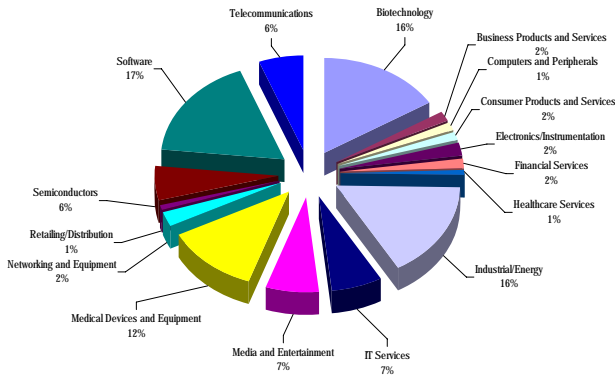
Industry Group	All Investments		Initial Investments	
	No. of Companies	Investment Amt (\$Bil)	No. of Companies	Investment Amt (\$Bil)
Information Technology	1,905	14.0	659	2.9
Medical/Health/Life Science	734	8.2	234	1.5
Non-High Technology	553	6.2	286	1.8
Total	3,192	28.4	1,179	6.2

Figure 6.0
2008 Investments
By Company Stage



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Figure 7.0
Venture Capital Investments in 2008
By Industry Sector



ple, the one year returns reflect falling valuations for public companies which then affect the valuations of private companies. Amplifying this effect in 2008, likely continuing into 2009 is the large number of later stage companies still in portfolios. These companies typically have positive EBITDA. Their portfolio valuations would be influenced by public markets through the use of ratios and comparables for pricing. Much of this IRR “exists” in the net asset values of portfolios. A continued awful exit market will delay exits (timing) and could reduce the values of the companies now awaiting an IPO or acquisition (amount realized). Both suggest lower short-term returns going forward.

Figure 9.0
Valuations Per Company Industry
2008 Financings (\$ Millions)

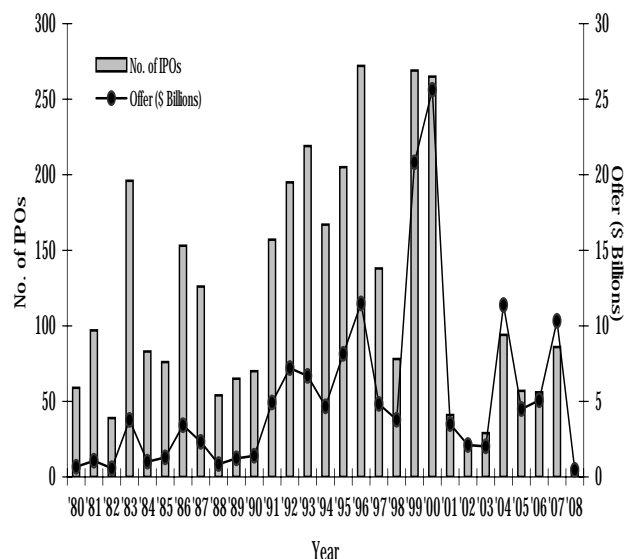
Company Industry	Avg Val	Max	Upper Quartile	Median	Lower Quartile	Min
Biotechnology	44.2	158.2	94.0	14.6	3.1	0.1
Business Products and Services	17.0	42.2	23.8	12.0	5.2	2.0
Computers and Peripherals	NA	NA	NA	NA	NA	NA
Consumer Products and Services	24.8	77.0	27.0	10.2	8.0	2.0
Electronics/Instrumentation	NA	NA	NA	NA	NA	NA
Financial Services	NA	NA	NA	NA	NA	NA
Healthcare Services	NA	NA	NA	NA	NA	NA
Industrial/Energy	33.7	200.0	33.8	5.9	2.2	0.1
IT Services	36.5	188.0	33.0	10.1	4.5	0.3
Media and Entertainment	161.6	1,000.0	68.7	28.1	17.6	3.0
Medical Devices and Equipment	44.5	140.0	63.1	34.1	13.6	1.2
Networking and Equipment	NA	NA	NA	NA	NA	NA
Other	NA	NA	NA	NA	NA	NA
Retailing/Distribution	NA	NA	NA	NA	NA	NA
Semiconductors	38.9	70.0	42.3	37.8	30.0	14.2
Software	25.9	113.0	36.9	22.4	7.5	0.5
Telecommunications	40.3	141.3	30.0	12.0	9.0	6.0
Total	46.7	1,000.0	57.9	13.3	4.7	0.1

Figure 8.0
2008 Investments
By State

State	Number of Companies	Pct of Total	Investment (\$ Millions)	Pct of Total
CA	695	47%	5,917.3	55.2%
MA	138	9%	898.2	8.4%
NY	125	8%	768.0	7.2%
TX	56	4%	510.2	4.8%
WA	69	5%	405.2	3.8%
VA	37	3%	291.3	2.7%
IL	23	2%	229.5	2.1%
MD	32	2%	220.6	2.0%
NJ	33	2%	182.0	1.7%
PA	51	3%	168.0	1.6%
All Others	223	15%	1,123.7	10.5%
Total	1,482		10,713.8	

When analyzing the performance results from Thomson Reuters, several points need to be emphasized. For example, a large portion of the investment performance of the funds in any analysis of venture capital performance is dependent on unrealized returns that are subject to the various valuation methods used by firms for valuing year-end portfolio investments. By definition, these investments are usually illiquid and the valuations applied to them could have a liquidity premium applied to them. Later stage funds may be a bit more efficient in pricing since they tend to have valuations that are more closely correlated with public stocks.

Figure 10.0
Venture-Backed IPOs



Although these measures seem to make venture capital returns and public market returns directly comparable, the returns to public markets are almost always stated as time-weighted returns while it is recommended that venture capital returns be calculated as money-weighted returns, or internal rates of return. By definition, neither method is “right” or “wrong”, but just different calculations of performance. Therefore, readers should bear in mind that additional care must be taken when directly comparing public and private market performance.

Venture capital funds by their nature are long-term investments and should be measured with this in mind. Short-term performance can be misleading because the underlying investments are highly illiquid. Also, since performance is in large part affected by capital gains that have not been distributed yet, short-term performance is more of an indicator of performance as opposed to a truer representation. Readers should bear this in mind when comparing short-term versus long-term asset class performance.

Figure 11.0
Performance of Private Equity funds

Fund Type	Net IRR to Investors For Investment Horizon Ending 09/30/2008 for Private Equity Funds				
	1YR	3YR	5YR	10YR	20YR
Seed/Early Focused	-1.5	3.7	5.0	37.1	21.6
Balanced Focused	-5.6	7.3	11.4	14.9	14.7
Later Stage Focused	9.1	11.1	10.1	8.7	14.5
All Venture	-1.5	6.4	8.5	17.1	17.0
Buyout Funds	-8.3	7.1	12.2	7.3	11.1
Mezzanine Debt	10.8	4.4	4.8	5.4	7.8
All Private Equity	-7.1	7.6	11.0	9.3	12.9

Figure 12.0
Five Year Rolling Averages:
Venture Capital vs. Public Market Indexes

Five-Year Period Ending	Venture Capital	S&P 500	NASDAQ
1990	6.5	9.4	2.8
1991	8.6	11.5	10.9
1992	8.7	12.0	15.4
1993	11.7	10.9	15.3
1994	13.1	5.4	10.6
1995	20.1	13.8	24.0
1996	22.4	12.2	17.1
1997	26.1	17.4	18.3
1998	26.6	21.4	23.1
1999	48.2	26.2	40.2
2000	48.2	16.5	18.6
2001	36.8	9.2	8.6
2002	26.9	-1.9	-3.2
2003	25.0	-2.0	-1.8
2004	-2.1	-3.8	-11.8
2005	-6.5	-1.1	-2.2
2006	1.3	4.5	4.6
2007	8.6	10.8	14.7
2008	8.5	-4.1	-4.7

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Industry Resources

Venture capital under management in the United States by the end of 2008 decreased 24% from 2007 year-end levels because large funds raised in during 2000 (\$105 billion total raised) at the height of the bubble rolled out of the industry's managed capital and were replaced with smaller and more targeted funds (\$28 billion raised in 2008). The overall contraction in capital under management is reflected in the anticipated decrease in active firms and funds. The industry's current investment and fundraising levels are approximately 1/3 of the bubble peak. We would expect further declines in the number of firms and funds from this current level as firms which raised money and invested at the height of the bubble wrap up their portfolios and exit the industry.

Industry headcount fell as well. The number of estimated industry principals fell 16% in 2008 also as part of the ongoing post-bubble contraction to approximately 7,500. At year end 2008, 882 venture firms managed 1,366 funds which had committed capital of \$197.3 billion.

METHODOLOGY

The number of firms in existence will vary on a rolling eight-year basis as firms raise new funds or do not raise funds for more than eight years. Under this methodology, we estimate that there are currently 882 firms with limited partnerships "in existence". To clarify, this is actually stating that there are 882 firms that have raised a venture capital partnership in the last eight years. In reality, there may well be fewer firms actually making new investments.

For this publication, we are primarily counting the number of firms with limited partnerships and are excluding other types of investment vehicles. From that description, it may appear that the statistics for total industry resources may be underestimated. However, this must be balanced with the fact capital under management by captive and evergreen funds is difficult to compare equitably to typical limited partnerships with fixed lives. For this analysis only, the firms counted for capital under management include firms with fixed life partnerships and venture capital funds raised. If a firm

raised both buyout and venture capital funds, only the venture funds would be counted in the calculation of venture capital under management.

Figure 1.01
Capital Under Management
U.S. Venture Funds (\$ Billions)
1980 to 2008

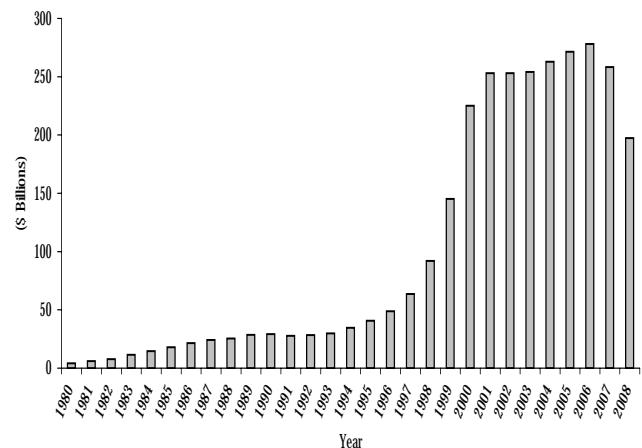
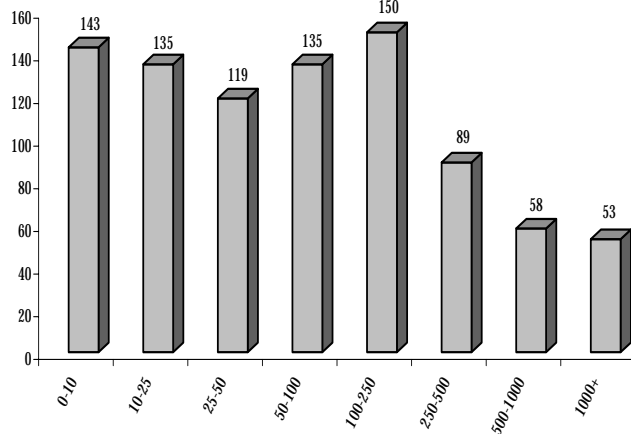


Figure 1.02
Total Capital Under Management
By Firm Type 1980 to 2008 (\$ Millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Private Independent	2,062	2,909	4,314	6,824	9,194	11,175	14,549	16,745	17,898	21,667	22,144	21,403	22,245	24,399	28,502	33,519	40,096	51,566	75,265	118,970	184,432	209,055	209,655	211,470	220,242	229,247	236,708	223,869	176,672
Financial Institutions	1,218	1,993	2,234	3,099	3,539	4,124	4,296	4,408	4,466	4,060	4,014	3,515	3,344	3,419	4,038	4,924	5,705	8,521	12,220	17,853	25,504	27,405	26,710	26,382	26,273	25,244	24,473	20,928	13,182
Corporations	516	759	744	1,018	1,179	1,773	1,772	2,172	2,296	2,137	2,370	2,281	2,454	1,753	1,805	1,698	2,555	2,715	3,421	6,973	13,135	14,304	14,444	14,103	14,073	14,898	14,913	11,938	6,440
Other	304	439	509	459	689	828	883	875	840	735	671	601	357	229	356	459	544	899	1,094	1,503	2,129	2,336	2,290	2,244	2,311	2,012	2,006	1,565	1,006
Total	4,100	6,100	7,800	11,400	14,600	17,900	21,500	24,200	25,500	28,600	29,200	27,800	28,400	29,800	34,700	40,600	48,900	63,700	92,000	145,300	225,200	253,100	253,100	254,200	262,900	271,400	278,100	258,300	197,300

National Venture Capital Association

Figure 1.03
Distribution of Firms
By Capital Managed 2008



Capital Under Management (\$ Millions)

This chart shows capital committed to US venture firms in active funds. While much of the capital is managed by larger firms, of the 882 firms in existence at the end of 2008, roughly 60% of them (532) managed \$100 million or less. By comparison, 53 firms managed active funds totaling more than \$1 billion.

Venture capital under management can be a complex statistic to estimate. Indeed, capital under management reported by firms can differ from firm to firm as there's not one singular definition. For example, some firms include only cumulative committed capital, others may include committed capital plus capital gains, and still other firms define it as committed capital after subtracting liquidations. To complicate matters, it is difficult to compare these totals to European private equity firms which include capital gains as part of their capital under management measurements.

For purposes of the analysis in this publication, we have tried to clarify the industry definition of capital under management as the cumulative total of committed capital less liquidated funds or those funds that have completed their life cycle. Typically, venture capital firms have a stated 10-year fixed life span, except for life science funds which are often established as 12-year funds. Figure 1.07 shows the reality of fund life. Thomson Reuters calculates capital under management as the cumulative amount committed to

Figure 1.04
Fund and Firm Analysis

Fund Vintage Year	Total Cumulative Funds	Total Cumulative Firms	Total Cumulative Capital (\$B)	Existing Funds	Firms That Raised Funds in the Last 8 Vintage Years	Capital Managed (\$B)	Avg Fund Size (\$M)	Avg Firm Size (\$M)
1980	186	117	5.8	129	92	4.1	31.8	44.6
1981	250	154	7.9	188	127	6.1	32.4	48
1982	321	192	9.8	248	162	7.8	31.5	48.1
1983	434	236	13.4	355	208	11.4	32.1	54.8
1984	550	288	16.8	459	260	14.6	31.8	56.2
1985	639	320	20.2	541	297	17.9	33.1	60.3
1986	718	354	24.1	603	332	21.5	35.7	64.8
1987	820	390	27.7	681	362	24.2	35.5	66.9
1988	901	411	31.3	715	377	25.5	35.7	67.6
1989	996	440	36.5	746	392	28.6	38.3	73
1990	1055	457	39	734	393	29.2	39.8	74.3
1991	1094	465	41.2	660	373	27.8	42.1	74.5
1992	1170	486	45.2	620	365	28.4	45.8	77.8
1993	1264	518	50	625	376	29.8	47.7	79.3
1994	1369	549	58.7	651	389	34.7	53.3	89.2
1995	1527	615	68.3	707	429	40.6	57.4	94.6
1996	1674	675	80.2	773	469	48.9	63.3	104.3
1997	1899	774	100.2	903	548	63.7	70.5	116.2
1998	2140	859	131	1085	624	92	84.8	147.4
1999	2488	994	186.5	1394	752	145.3	104.2	193.2
2000	2907	1138	270.3	1737	881	225.2	129.6	255.6
2001	3147	1222	303.1	1883	943	253.1	134.4	268.4
2002	3221	1238	311.8	1852	938	253.1	136.7	269.8
2003	3327	1293	322.5	1800	968	254.2	141.2	262.6
2004	3497	1358	343.1	1823	1003	262.9	144.2	262.1
2005	3677	1428	371.6	1778	1024	271.4	152.6	265
2006	3862	1502	409.1	1722	1027	278.1	161.5	270.8
2007	4081	1592	444.7	1593	1019	258.3	162.1	253.5
2008	4273	1648	467.6	1366	882	197.3	144.4	223.7

The correct interpretation of this chart is that since the beginning of the industry to the end of 2008, 1,648 firms had been founded and 4,273 funds had been raised. Those funds totaled \$467.6 billion. At the end of 2008, 882 firms as calculated using our eight-year methodology managed 1,366 individual funds, each fund typically a separate limited partnership. Capital under management by those funds at the end of 2008 is \$197.3 billion. The average firm size is \$223.7 million.

Figure 1.08
Life of IT Funds in Years

Life of IT Funds In Years	% of Funds
<= 10	7%
11-12	20%
13-14	27%
15-16	22%
17-18	14%
>=19	10%

Source: Adams Street Partners, based on 2006 analysis of funds then dissolved. This chart tracks the year in which a 10-year fund is, in fact, dissolved. These later periods are referred to as "out years." By this point in time, most of the strong exits have occurred, the companies that are going to outright fail have done so, and the portfolio consists of a few portfolio company holdings which are difficult to sell at a favorable price.

funds on a rolling eight-year basis. Current capital under management is calculated by taking the capital under management calculation from the previous year, add in the current year's funds' commitments, and subtracting the capital raised eight years prior. For this analysis, Thomson Reuters classifies ven-

ture capital firms using four distinct types: private independent firms, financial institutions, corporations, and other entities. 'Private independent' firms are made up of independent private and public firms including both institutionally and non-institutionally funded firms and family groups. 'Financial institutions' refers to firms that are affiliates and/or subsidiaries of investment banks and non-investment bank financial entities including commercial banks and insurance companies. The 'Corporations' classification includes venture capital subsidiaries and affiliates of industrial corporations. The capital under management data referred to in this section consist primarily of venture capital firms investing through limited partnerships with fixed commitment levels and fixed lives and does not include infinite lived "evergreen funds" or true captive corporate industrial investment groups without fixed commitment levels. The term 'evergreen funds' refers to funds that have a continuous infusion of capital from a parent organization as opposed to the fixed life and commitment level of a closed-end venture capital fund.

Capital Commitments

New commitments to venture capital funds in the United States decreased in 2008 to \$27.9 billion from their post-bubble record levels in 2007. In 2008, 210 funds got investor commitments — a decrease of 15%. The dollar amount of those commitments fell 21%. Most of the successful fundraising during 2008 occurred in the first nine months. That said, overall fundraising (new capital committed by investors) remained in line with the amount of previously-raised capital being deployed or invested by venture capitalists in companies. That is, new commitments of capital and capital deployed remained pretty much in balance.

The fundraising environment remained difficult for all but the most proven and demonstrably promising firms throughout the year, and for virtually all funds as year end neared. Venture firms had raised considerable funds in 2007 and the first part of 2008. As the economy worsened toward the end of 2008, many institutional investors (e.g., pension plans, endowments, money managers) saw the public portion of their portfolios fall and found themselves over-allocated to alternative asset classes including venture capital. This “denominator” effect made it difficult for institutional investors to make any new commitments near year end 2008.

Much of the fundraising was done by established, often larger, firms. Capital was also successfully raised by new funds in promising sectors, such as clean technology, and those with proprietary deal flow prospects. The top fundraising states remained California, Massachusetts, and New York. The list of top states shifted in 2008 with DC and Texas joining the top 5, replacing Washington state and Pennsylvania. Overall, funds domiciled in the top 5 states accounted for 82% of the capital raised and 63% of the funds raising money.

Please note that fund domicile by state is less meaningful than it has been historically viewed. Much of the money is managed by large, national funds which tend to be domiciled in any of several states. Some of these firms, for example, may have their largest concentration of investing partners in California but the firm is actually headquartered and administered elsewhere.

Methodology

As defined by Thomson Reuters, capital commitments are funds raised by private equity limited partnerships from their limited partners. There are three sources of data for

capital commitments: (1) SEC filings that are regularly monitored by our research staff, (2) surveys of the industry routinely conducted by Thomson Reuters, and (3) industry press and press releases from venture firms. Commitments are stated on either a calendar year basis

Figure 2.01
Capital Commitments
To U.S. Venture Funds (\$ Billions)
1980 to 2008

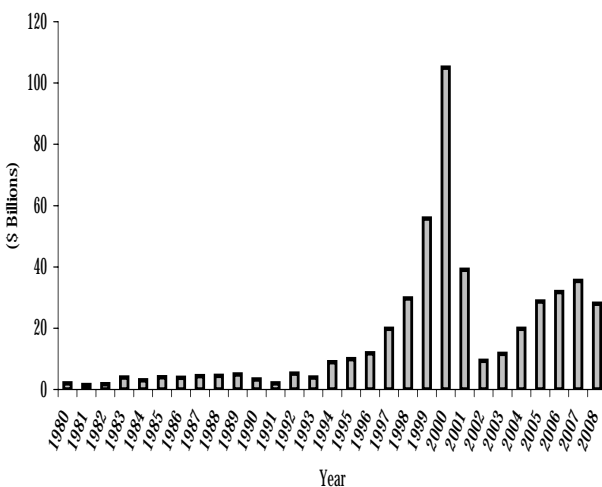


Figure 2.02
Capital Commitments
To Private Equity Funds 1980-2008

Year	Venture		Buyouts and Mezzanine		Private Equity	
	Capital \$Mil	No. Funds	Capital \$Mil	No. Funds	Capital \$Mil	No. Funds
1980	2,025.6	52	183.5	4	2,209.1	56
1981	1,486.5	75	126.8	4	1,613.3	79
1982	1,705.4	87	611.3	13	2,316.7	100
1983	3,949.2	143	1,351.3	15	5,300.5	158
1984	2,964.3	116	3,482.5	22	6,446.8	138
1985	3,988.5	121	3,024.5	22	7,013.0	143
1986	3,788.4	103	5,001.9	31	8,790.3	134
1987	4,376.7	116	15,565.7	41	19,942.4	157
1988	4,435.0	104	11,326.4	50	15,761.4	154
1989	4,902.6	105	11,966.2	78	16,868.8	183
1990	3,229.0	87	7,861.1	62	11,090.1	149
1991	2,002.8	42	5,886.6	27	7,889.4	69
1992	5,215.3	80	11,031.3	58	16,246.6	138
1993	3,943.6	88	16,128.9	79	20,072.5	167
1994	8,928.0	140	20,415.3	98	29,343.3	238
1995	9,859.6	172	26,293.3	102	36,152.9	274
1996	11,845.2	162	29,655.2	99	41,500.4	261
1997	19,772.5	244	41,055.4	129	60,827.9	373
1998	29,692.0	288	61,568.7	160	91,260.7	448
1999	55,808.9	451	53,556.5	153	109,365.4	604
2000	105,004.6	653	75,254.7	154	180,259.3	807
2001	39,056.4	321	49,904.1	120	88,960.5	441
2002	9,329.8	206	24,118.2	88	33,448.0	294
2003	11,607.8	163	31,040.1	101	42,647.9	264
2004	19,845.2	219	50,908.7	137	70,753.9	356
2005	28,727.5	235	97,403.2	179	126,130.7	414
2006	31,827.6	241	147,989.7	179	179,817.3	420
2007	35,398.0	247	205,260.1	208	240,658.1	455
2008	27,947.8	210	177,980.1	179	205,927.9	389

National Venture Capital Association

Figure 2.03
Venture Capital Fund Commitments
1980 to 2008 (\$ Millions)

State	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
CA	380	363	731	913	948	1044	770	1235	934	1501	736	546	1407	1169	2031	3330	3539	5555	7593	21854	41901	13328	2735	4652	9203	14930	10902	14866	15096	
MA	223	115	438	494	357	559	557	935	788	335	557	242	1051	170	1030	2012	1998	2439	4994	7984	16173	9563	2577	1597	1692	5144	4641	6257	3501	
NY	228	402	193	1043	424	302	1460	654	363	2242	490	509	470	695	1895	2154	1848	3966	8381	9601	16588	2504	1025	1245	2183	2096	2583	5223	1973	
DC	0	0	0	0	0	39	0	12	5	0	0	0	0	0	1310	280	820	2338	395	220	1423	1122	315	0	392	566	1413	240	1293	
TX	12	57	0	240	118	87	61	256	41	162	143	58	382	137	283	194	326	388	1411	1792	4160	2739	186	76	794	652	363	284	1172	
PA	0	9	0	57	69	54	73	55	12	118	45	167	30	110	182	114	174	609	157	1253	2290	334	86	488	463	349	486	754	1025	
CT	70	309	44	333	130	316	156	236	288	66	310	150	300	272	388	260	425	1324	1093	3038	3050	3904	60	165	2327	1216	3186	625	886	
UT	0	0	0	0	6	0	11	1	0	0	0	0	0	0	11	0	0	33	50	40	129	224	29	34	40	24	130	142	559	
WA	9	37	17	113	0	25	126	37	60	0	0	5	48	40	37	179	204	180	409	640	1195	938	83	1	995	281	590	1882	489	
MD	0	45	0	0	219	4	182	24	2	74	213	50	0	415	272	21	775	172	1272	1681	4039	521	478	1100	278	833	2868	1377	447	
MN	2	0	3	168	0	266	110	51	418	20	162	16	946	66	164	19	36	527	585	131	2473	17	276	26	50	295	398	275	325	
IL	1000	65	48	158	74	57	47	235	158	26	57	94	247	278	183	230	295	360	466	1364	1007	1073	478	702	432	81	465	558	236	
OH	0	16	30	0	34	3	0	87	75	0	30	0	67	4	86	10	0	366	58	659	662	330	102	5	276	544	125	209	194	
CO	0	0	40	29	112	32	71	32	70	80	0	0	0	114	0	19	216	253	433	1942	2414	513	140	94	84	69	133	371	157	
TN	0	0	0	0	30	20	24	73	0	34	0	0	40	0	116	84	151	109	266	267	262	82	22	101	16	84	62	100	129	
MI	0	0	0	36	0	5	0	97	33	0	0	0	0	3	13	0	26	226	5	329	286	8	11	51	33	101	13	49	106	
VA	0	0	34	0	2	0	4	10	13	15	2	0	0	3	0	53	20	65	322	996	2345	201	41	21	538	72	428	555	599	83
AL	0	0	0	0	0	150	0	0	0	0	0	0	0	0	0	0	0	5	30	0	80	16	11	7	19	60	19	0	68	
NJ	41	23	13	96	216	254	61	120	0	125	244	75	110	177	401	363	456	118	1002	720	1206	652	392	561	197	344	1962	235	48	
MO	0	0	0	0	15	644	0	33	0	0	53	0	0	64	0	11	6	45	25	80	65	286	0	0	80	29	40	220	45	
FL	60	3	87	39	171	10	0	36	11	29	0	35	0	133	105	106	0	78	250	326	936	26	8	56	1	313	11	109	25	
AZ	0	0	0	0	19	0	0	0	37	0	0	0	0	10	0	0	0	0	0	29	0	21	42	41	0	19	0	0	20	
GA	0	0	0	52	0	0	0	15	65	0	14	0	0	56	0	74	34	41	181	30	861	19	0	0	55	104	103	518	19	
SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	0	22	14	131	1	0	0	5	0	0	0	15	
ND	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	13
KY	0	17	0	0	0	0	0	0	0	0	0	0	0	14	7	15	0	42	0	0	0	135	8	2	0	5	65	98	12	
HI	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	3	0	0	0	10	0	0	3	0	8	0	0	0	6	
OR	0	0	0	20	0	0	0	30	0	0	0	0	0	0	32	32	0	0	10	0	65	0	14	0	2	0	0	2	5	
VT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	20	25	0	0	0	0	0	11	3	
NC	0	0	0	0	0	7	7	32	23	38	1	0	0	0	63	10	164	349	174	209	601	120	72	291	3	101	398	166	1	
LA	0	0	0	0	0	0	0	0	0	0	0	0	11	14	169	18	24	88	51	375	70	112	52	8	75	4	13	0	0	
OK	0	0	0	0	0	0	32	0	0	10	0	0	0	0	0	0	24	0	45	0	110	0	0	0	0	12	38	5	0	
IN	0	0	12	10	2	0	10	0	27	16	5	0	49	0	20	0	116	0	13	20	103	40	10	36	17	6	24	1	0	
KS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	10	20	0	0	0	0	0	0	0	0	0	0	0	0
IA	0	20	0	25	0	11	0	60	0	0	0	0	56	0	0	5	0	12	0	5	21	26	0	0	10	0	43	0	0	
RI	0	0	5	0	0	17	0	0	25	0	0	0	0	0	0	0	0	0	0	0	0	25	0	0	0	0	64	14	0	
MS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12	0	0	0	0	0	30	0	0	0	0	1	0	0	
NH	0	7	4	34	0	49	0	0	40	0	0	15	0	0	0	20	0	50	0	0	0	0	11	9	0	0	5	7	0	
ME	1	0	0	0	0	0	0	22	948	0	0	0	2	0	59	0	22	0	0	127	0	77	16	3	0	0	46	20	0	
ID	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15	27	0	0	0	0	0	75	0	
WV	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6	4	13	2	0	0	0	0	0	
SC	0	1	0	2	0	0	0	0	0	13	5	0	0	0	0	14	0	0	0	0	70	0	15	0	0	6	0	0	0	
PR	0	0	0	0	0	0	0	0	0	0	10	0	0	0	0	0	0	0	0	0	0	31	0	0	0	0	0	1	0	
NV	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	50	25	0	0	25	0	0	0	0	0	0	0	0	0	0
NE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	111	36	0	0	0	41	0	0	0	0	0	0	0	0	0
DE	0	0	8	0	0	0	0	0	0	0	0	0	0	0	25	31	65	0	0	28	0	0	22	0	10	0	0	0	0	
UN	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
WY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	26	0	0	0	0	0	0	0	0	0
AR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7	69	0	0	0	0	0	0	0	0	0
WI	0	0	0	58	0	0	0	0	0	0	0	0	0	0	40	0	0	16	0	17	82	14	0	0	11	0	78	101	0	
NM	0	0	2	31	17	36	28	0	2	0	155	40	0	0	6	2	0	0	0	0	0	0	0	18	22	34	5	7	0	
Total	2026	1487	1705	3949	2964	3989	3788	4377	4435	4903	3229	2003	5215	3944	8928	9860	11845	19773	29692	55809	105005	39056	9330	11608	19845	28728	31828	35398	27948	

