



National Venture Capital Association



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VENTURE-BACKED IPO MARKET LANGUISHED WHILE ACQUISITIONS MARKET MAINTAINED BULLISH PACE IN FIRST QUARTER OF 2006

Strongest M&A Valuations Since 2001 Not Enough to Ease Economic Concerns

New York, NY- April 3, 2006 – Only ten venture-backed companies raised \$540.8 million through Initial Public Offerings (IPOs) in the first quarter of 2006, according to the Exit Poll report by Thomson Venture Economics and the National Venture Capital Association. While the first quarter is typically the lowest of the year for IPOs, offer amounts were also down considerably, as the first quarter’s average offer amount of \$54.1 million is the lowest average since the third quarter of 2002, when the average offer amount was \$30.0 million. Conversely, the venture-backed M&A market continued to perform strongly with 95 companies being acquired with a disclosed value of \$4.8 billion, the highest total disclosed value in five years.

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	317	151	7,874.4	52.1	24	2,473.5	103.1
2003	292	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	86	47	4,142.8	88.2	24	3,225.6	134.4
2004-4	84	46	2,862.2	62.2	27	2,990.4	110.8
2004	339	186	15,440.6	83.0	93	11,014.9	118.4
2005-1	82	46	4,364.9	93.6	10	720.7	72.1
2005-2	79	35	4,521.0	115.3	10	714.1	71.5
2005-3	98	47	4,374.8	89.0	19	1,458.1	76.7
2005-4	86	39	2,563.7	69.7	17	1,568.1	92.2
2005	345	167	15,824.4	94.8	56	4,461.0	79.7
2006-1	95	43	4,817.4	112.0	10	540.8	54.1
2006	95	43	4,817.4	112.0	10	540.8	54.1

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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.

Mark Heesen, president of the National Venture Capital Association, expressed unease regarding the poor IPO activity: “We are becoming increasingly concerned about the economic implications of the lackluster IPO market for venture-backed companies,” said Heesen. “Although we are bolstered by the continued strength of the acquisitions market, we can not rely on it as the only avenue to produce above average

returns for the venture industry. Our economy depends on a strong US capital markets system to create jobs and revenues here. And while the companies that have gone public during the past year have seen their stock prices rise, their successes have not yet translated into a marked improvement in IPO activity. This situation needs to show signs of improvement before year end or we will begin to feel the effects on a much broader scale.”

IPO Activity Highlights

The Life Sciences sector drove the IPO activity in the first quarter of 2006, accounting for seven of the ten IPOs. The largest IPO of the first quarter came from the Life Sciences sector, Altus Pharmaceuticals, Inc.’s \$105.0 million offering. Altus Pharmaceuticals was backed by Warburg Pincus, U.S. Venture Partners, CMEA Ventures, China Development Industrial Bank, and Nomura International. The Life Sciences sector in total raised \$309.8 million.

The Technology sector had three companies raise a total of \$231.1 million. The largest IPO in the Technology sector, and the second largest overall, was Traffic.com, Inc., which raised \$78.6 million. Traffic.com was backed by TL Ventures, PA Early Stage Partners, Convergence Capital, and Internet Capital Group. The Technology sector also contained the third largest IPO of the quarter, Liquidity Services, Inc.’s \$76.9 million offering. Liquidity Services was backed by ABS Capital Partners.

Industry Breakdown

		Q1 2006	
Industry		*Number of Venture-Backed IPO's in the U.S.	Total Venture-Backed Offering Size (\$M)
Life Sciences	Biotechnology	4	197.0
	Medical/Health	3	112.8
	TOTAL	7	309.8
Technology	Internet Specific	2	155.5
	Semiconductors	1	75.6
	TOTAL	3	231.1

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For the rolling 12 month period ending March 31, 2006, 73% of the companies that went public are currently trading above their offering price. In addition to the IPOs completed this quarter, there are currently twenty-four venture-backed companies “in registration” with the 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 with sixteen companies in registration at the end of 2005.

Merger and Acquisition Highlights

In contrast to the IPO market, merger and acquisition activity remained especially vibrant, building strongly on momentum from the previous two years. The first quarter M&A total disclosed value represents a 46.8% increase over the fourth quarter of 2005, and a 10.4% increase over last year’s strong first quarter. This quarter has been the most robust since the first quarter of 2001.

The average disclosed deal size came in at \$112 million, a significant improvement over last quarter and the first quarter of 2005 which posted averages of \$69.7 million and \$93.6 million respectively. The

improvement is even more starkly illustrated in the median figures with this quarter reporting a median size disclosed value of \$60 million. Last quarter that figure was only \$31 million and in the first quarter of 2005 it was \$33.6 million.

Daniel Benkert, senior analyst at Thomson Financial said, “This quarter’s M&A performance will adjust expectations slightly upwards. Somewhere around the midpoint of last year the acquisitions market moved unequivocally out of the recovery phase and has now found its legs. With billions already in the pipeline of pending deals, this level of activity looks to be a protracted phenomenon over the coming quarters, especially with a downward trending IPO environment.”

This quarter’s venture-backed M&A activity remained primarily technology-focused, with tech companies accounting for seventy-five deals and a disclosed value of \$3.3 billion. This contrasts sharply with the IPO activity, which trended towards the medical/biotechnology sectors.

The largest disclosed deal of the quarter was the \$600 million acquisition of wireless network products developer Flarion Technologies by QUALCOMM in January. This is the largest deal since the September 2004 acquisition of Seisint by LexisNexis for \$775 million, also a technology-specific deal.

Venture-Backed M&A Industry Breakdown

		Q1 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	Internet Specific	21	8	981.3
	Semiconductors	7	4	391.4
	Communications/Media	11	6	517.6
	Computer Software	33	13	854.9
	Computer Hardware	3	1	600.0
	TOTAL	75	32	3,345.2
Life Sciences	Medical/Health	6	3	588.2
	Biotechnology	3	3	241.5
	TOTAL	9	6	829.7
Other	Non-high Technology	11	5	642.5
	TOTAL	95	43	4,817.4

Source: Thomson Venture Economics & National Venture Capital Association

In terms of the return on total investment, this quarter also showed a marked improvement. The deals bringing in the top returns, those with values greater than 4x the venture investment, accounted for 33% of the total this quarter. Last quarter these deals made up 23% of the total. At the lower end of the scale, those deals returning less than the amount invested accounted for 16.6% of the quarter’s total, while last quarter they comprised 36% of the group.

Analysis of Transaction Values versus Amount Invested

Relationship between transaction value and investment	Q4 2005	Q1 2006
Deals where transaction value is less than total venture investment	14	7
Deals where transaction value is 1-4x total venture investment	16	21
Deals where transaction value is 4x-10x total venture investment	4	8
Deals where transaction value is greater than 10x venture investment	5	6
Total Disclosed Deals	39	42**

Source: Thomson Venture Economics & National Venture Capital Association

** In Q1 2006, 43 deals had disclosed values, but one of these targets did not have a disclosed total investment amount.

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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.