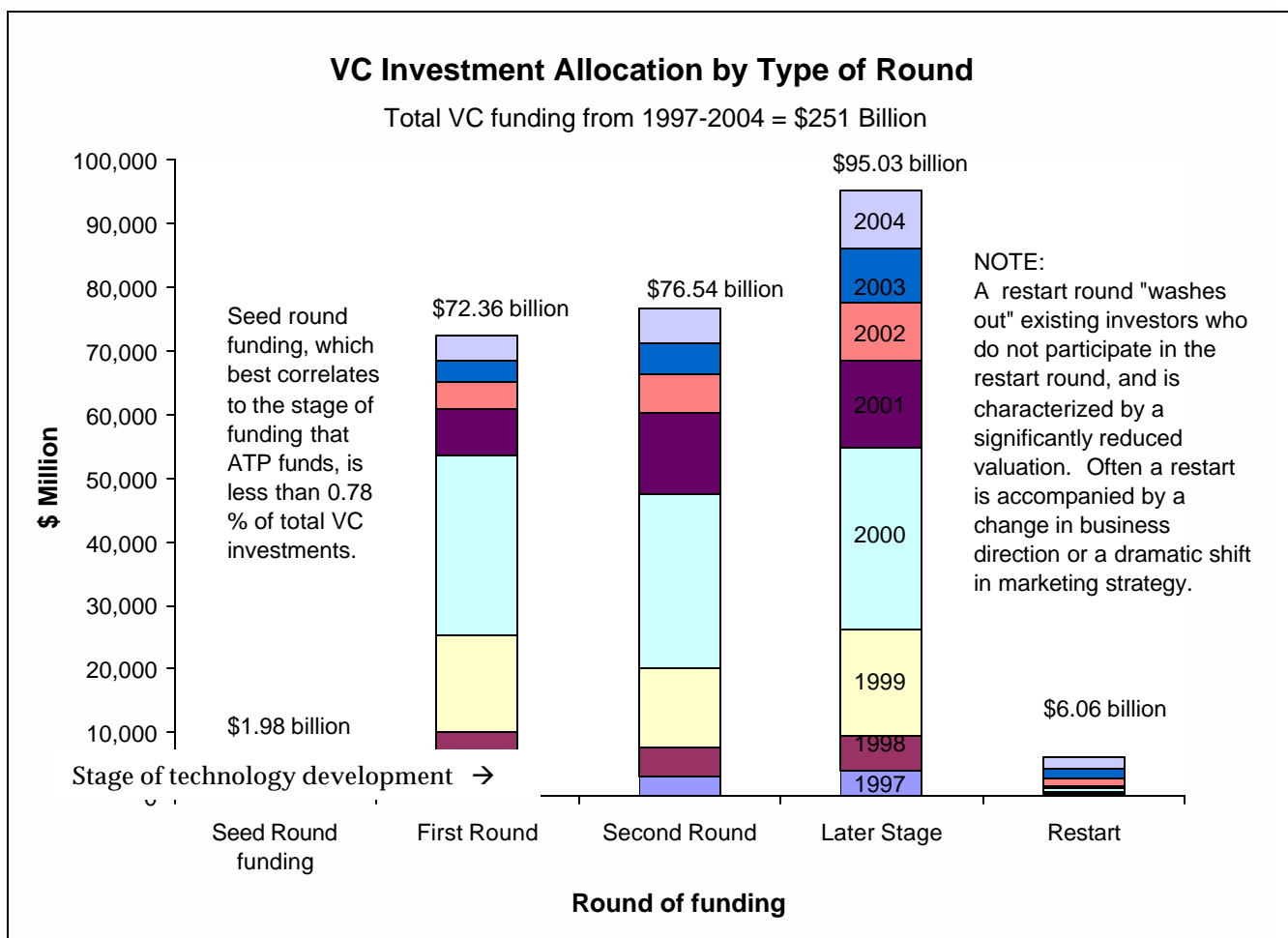


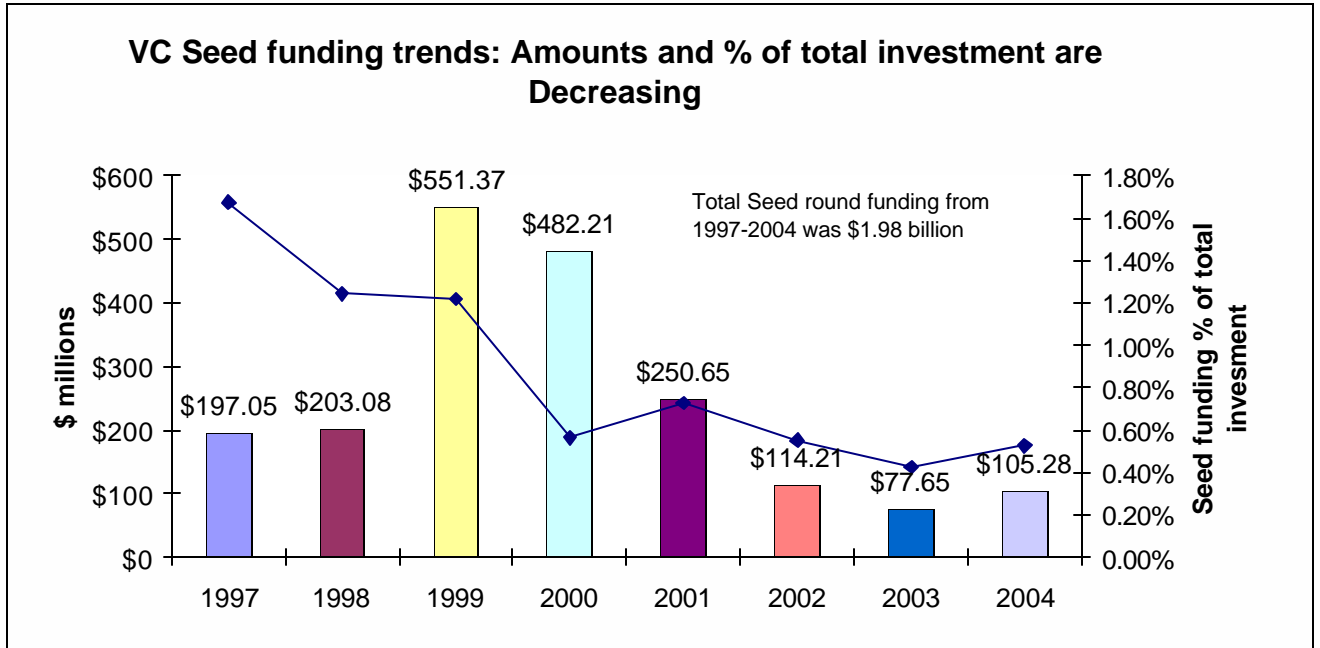
Venture Capital Funding by Phase of Technology is Increasingly Focusing on Later Stages

Venture capitalists have been affected by the dot-com bubble burst and recession of 2000-1. Because VCs are financiers, who expect a return of 25-35% per year over the life of their funds¹, they are increasingly focusing on lower-risk activities. The following graph from Ernst and Young and VentureOne confirms this trend:



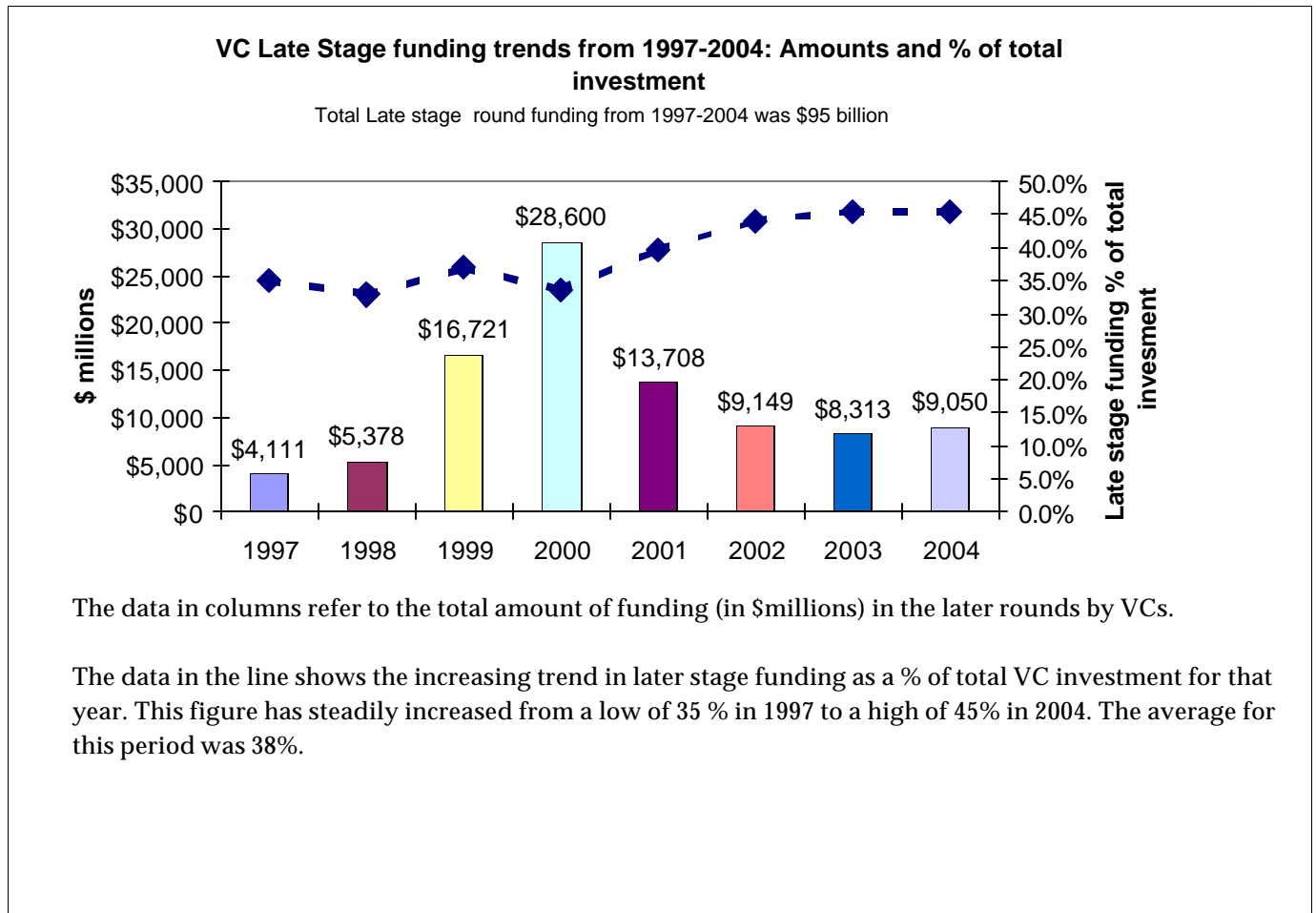
¹ B. Zider, "How Venture Capital Works" *Harvard Business Review*, Nov 1998 (pg 131-137)

The amount of seed funding is so relatively small, to see the declining trend at this early stage, it is necessary to view this portion of the data separately.

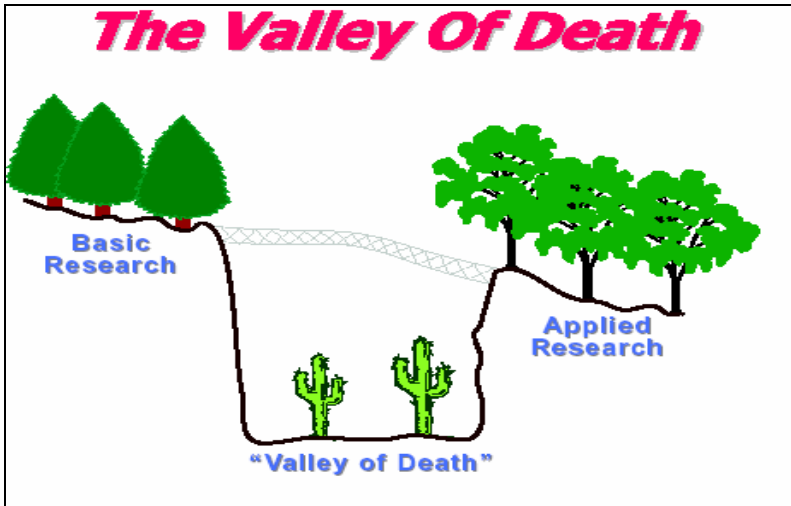


While the absolute amounts of seed stage funding has steadily decreased, the amount of seed funding as a percent of total VC investment has also decreased, from 1.6% in 1997 to 0.53% in 2004. The average for this period was 0.78%.

While seed stage funding has seen a declining trend, late stage funding is increasing (as a percent of total investment).



Funding the “Valley of Death”², the metaphor that characterizes the chasm between the funding of basic research and applied research, **is the critical bottleneck in the innovation cycle**. An analysis by the Council on Competitiveness, the National Innovation Initiative Final Report³, shows that the “capital chasm” is in the early stage: *right where ATP focuses, and where VCs do not*.



Funding Gap in Risk Capital						
Funder/Stage	Pre-Seed	Seed	Start-Up/Early	Mid	Later	
Friends and Family	█		█			
Individual Angels		█				
Angel Networks/Funds			█ Capital Chasm			
Venture Funds				█		
Venture Funds					█	
Investment Level	\$25,000 to \$100,000	\$100,000 to \$500,000	Between \$500,000 and \$5 million (emerging)	\$5 million and up		

The traditional funding gap has been between seed and early stage investments at the \$500,000 to \$2 million range, where individual investors can no longer make investments. Recently, the gap has been widening as VC firms are shifting investments to focus on more mature firms with larger capital needs. Entrepreneurs report difficulty in raising money between \$2 million and \$5 million.

Angel networks, which aggregate angel investments, provide a solution.

Susan L. Preston, *Angel Investment Groups, Networks, and Funds: A Guidebook to Developing the Right Angel Organization for Your Community*, Kauffman Foundation, p.4

Factsheet 1.C11 (March 2005 by Prasad Gupte)

² Term that is often attributed to Congressman V. Ehlers, Ph.D (R-MI)

³ http://www.compete.org/pdf/NII_Final_Report.pdf