VisionToReality
A Programme Serving Companies with Extraordinary Potential

*nextwave™

ISSUE 4: 2003

Ideas for private equity investors and entrepreneurs in the technology industry

Private equity investing – Is the tide turning around the globe?

The latest in corporate governance? Security

PricewaterhouseCoopers
Thomson Venture Economics
National Venture Capital Association
MoneyTree™ survey
full-year & Q4 2003 results

*connectedthinking

PricewaterhouseCoopers

*nextwave™

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Special topics

Quarterly features

Message to the reader

Welcome to a new year – and a brand new look for *nextwave*™! We've redesigned and brightened up our pages. More importantly, we've added a new element – Connected Thinking. Connected Thinking is the term used to describe how we at PricewaterhouseCoopers use our network, experience, industry knowledge, and business understanding to build trust and create value for our clients. We hope you enjoy our fresh new look.

Corporate governance and changing accounting regulations remain hot topics and big challenges for all businesses. This issue of *nextwave*™ continues to help VCs and technology companies alike stay on top of the latest changes.

Our lead article, "Private Equity Investing – Is the Tide Turning Around the Globe?," provides a quick overview of the industry in both the US and European markets. The second article, "The Latest in Corporate Governance? Security," points out the importance of including security measures in M&A due diligence to ensure that potential partners don't introduce weaker security levels.

Also included in this issue are the fourth-quarter and the full-year 2003 results of the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ survey. See pages 5 through 16 for full details.

Finally, look for our regular features throughout the issue – Regulatory Buzz, Industry Currents, and Voice of the VC – providing brief updates, useful advice, and expert opinions on both the VC and technology industries.

You have a vision. PricewaterhouseCoopers helps bring that vision to reality. We hope you enjoy the Q4 2003 issue of *nextwave*™ and appreciate your comments about our current issue or ideas for what you'd like to see covered in future issues. Remember to visit us on the Web at www.pwcnextwave.com.

Tracy Lefteroff
Global Managing Partner
Private Equity and Venture Capital

Private equity investing – Is the tide turning around the globe?

Assuming that the European private equity industry continues to follow trends laid down in the US market, the news is encouraging. It suggests that we've now experienced the bottom of the downturn and might even be back on an upward track. Final figures for the US venture market in 2003 from the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ survey showed a total $4.9 billion invested in venture capital during Q4, up from $4.4 billion in Q3. Meanwhile, year-on-year analysis of funds invested in US venture is also encouraging, with a total $18 billion invested in the asset class during 2003. This represents a 15% drop on 2002 investment levels; much smaller than the 2002/2001 decline, indicating that venture capital investment is settling out at a comfortable, sustainable level.

Meanwhile, for Europe, the EVCA Indicator for Q3 2003 showed an increase in investment activity, with overall private equity (venture and buyout) investment rising 50% on the preceding quarter. Buyouts continued to make up the lion's share of this figure, accounting for 78% of all activity (with fewer, bigger deals very much the order of the day).

There was also good news where European fundraising activity was concerned, with Q3 2003 totals more than double the amounts raised in the previous quarter. This performance was helped by the fact that a number of large funds closed in Q3, but nevertheless it provides a good indication of the fact that the industry has emerged as a proven asset class, with real growth prospects.

One overall message is coming through loud and clear—venture firms are starting to invest again.

Other factors would appear to be underpinning this recovery. IPO activity in Q4 2003 was on the rise, and 2003 also saw a substantial increase in the number of M&A deals (especially those in the Euro 500 million – Euro 1 billion level). The latter was spurred by ongoing restructuring activity across Europe, with significant disposals of non-core assets, as well as ongoing consolidation in the middle-market sector and, it should be said, a growing number of venture firms looking to realize their portfolios.

One overall message is coming through loud and clear—venture firms are starting to invest again. Naturally, the events of the last couple of years mean that a great deal of this investment is going into existing portfolio companies, mainly because of a lack of viable exit opportunities. But hopefully, as the climate improves, these firms will have more time to look at new investments—albeit on a much more selective basis than before.

2003 figures for the US suggest that the decline in early-stage investment may be leveling off, although it has continued to be a feature of the European market. This may be a positive sign, especially if Europe follows suit. But for investment in early-stage technology to recover, what we really need is an upsurge in corporate IT spending. In the near-term, therefore, from an investor's perspective, buyouts look likely to continue to generate the best returns.

Where future early-stage trends are concerned, it is clear that, for the moment at least, biotech is well placed to emerge as the lead sector for investment, overtaking software (in Europe and the US). Further on, however, there should be some increasingly interesting opportunities in the venture side in a number of areas including radio frequency ID tags, wireless LANs, internet security, quantum computing and, eventually, nano and micro technology.

For 2002, total investments approximately equaled total funds raised; but for 2003, all the signs are that investments will take the upper hand. Against this backdrop, the capital overhang (which is already beginning to be eroded) will become less of an issue.

As we've said before, from now on, the market will look most kindly on those companies that can display an effective track record and, as cycles re-establish themselves, it will be these companies that find themselves best placed to raise new funds. Of course, the reverse is also true—life can only get harder for dotcom-era arrivals with an embarrassing number of write-offs on their books.

Directory:
Keith Arundale
keith.arundale@uk.pwc.com
Robert Conway
robert.conway@uk.pwc.com
Tracy Lefteroff
tracy.t.lefteroff@us.pwc.com

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Q4 2003 Voice of the VC

"It's like that old Texas saw embodied in a Randy Newman song: Early Stage Investing: 'All hat, no cattle;' Later Stage Investing: 'All horse, no saddle.'"

"The IPO market is not going to be the savior for the venture industry; trade sales will make up the majority of the exits in 2004."

"Biotech has a proven business model. You make a lot of money in good markets; less in bad markets, but you do make money."

"The best opportunities [today] are not in 'brave new world' applications."

Now available

M&A in Silicon Valley

The two-year hibernation of merger and acquisition activity is coming to an end. Improvements in the economy and in the financial condition of larger companies are awakening an appetite for expansion.

PricewaterhouseCoopers recently held a roundtable discussion with corporate development executives from ten leading technology companies including Intuit, Hewlett-Packard, Intel, eBay and Yahoo. Read what they have to say about the outlook for M&A in this 36-page white paper entitled *M&A in Silicon Valley*.

How to Order

M&A in Silicon Valley is complimentary. To order a hard copy please call 1.888.609.7117 and request publication MASV. There will be a small shipping charge.

To download the pdf file, go to: http://www.pwcglobal.com/extweb/pwcpublications.nsf/docid/634BC3EE5552F1CA85256E240053E03D.

Are you thinking of investing in Europe but don’t know where to start?

Educate yourself.

Attend one of the 2004-2005 European Tech Tours

The European Tech Tour Association (ETT) begins its sixth year with a tour in Israel, March 28-30. Other tours scheduled in 2004-2005 include:

England TT, June 2004
Russia TT, September 2004
Ireland TT, November 2004
Germany TT, March 2005
France TT, June 2005
Sweden TT, September 2005

ETT was founded in Geneva in 1998 in response to growing interest in emerging technology companies across Europe. It is considered by many to be one of the top European events linking institutional investors and high-quality technology companies.

ETT is an independent, non-profit organization, which aims to facilitate interactions between investors and entrepreneurs. ETT’s goal is to bring more transparency to Europe’s regional markets.

PricewaterhouseCoopers has supported and participated in this important venture activity since 1999. Past US investors attending the tours include Highland Capital, Intel Capital, Vision Capital, Walden International, and others.

Each tour is limited to 60 privately invited technology professionals from Europe, the US, and Asia including VCs, corporate and institutional investors.

Each tour provides you the opportunity to meet with 25-30 of that region’s most promising technology companies for potential investment, partnership, or M&A. You also meet and spend time with that region’s venture capital “players” at the opening evening reception and dinner.

To receive a personal invitation to one of the tech tours, please email **jan.m.akers@us.pwc.com** or visit **www.techtour.com** for more information.

PricewaterhouseCoopers
Thomson Venture Economics
National Venture Capital Association

*MoneyTree™ survey

full-year & Q4 2003 results

US Report

This special report, covering 2002 to 2003, provides detailed results of Q4 2003, summary findings for full-year 2003, and an additional year of trends. More detailed results, including an electronic version of this report, can be found on the MoneyTree™ Web site at www.pwcmoneytree.com

Directory

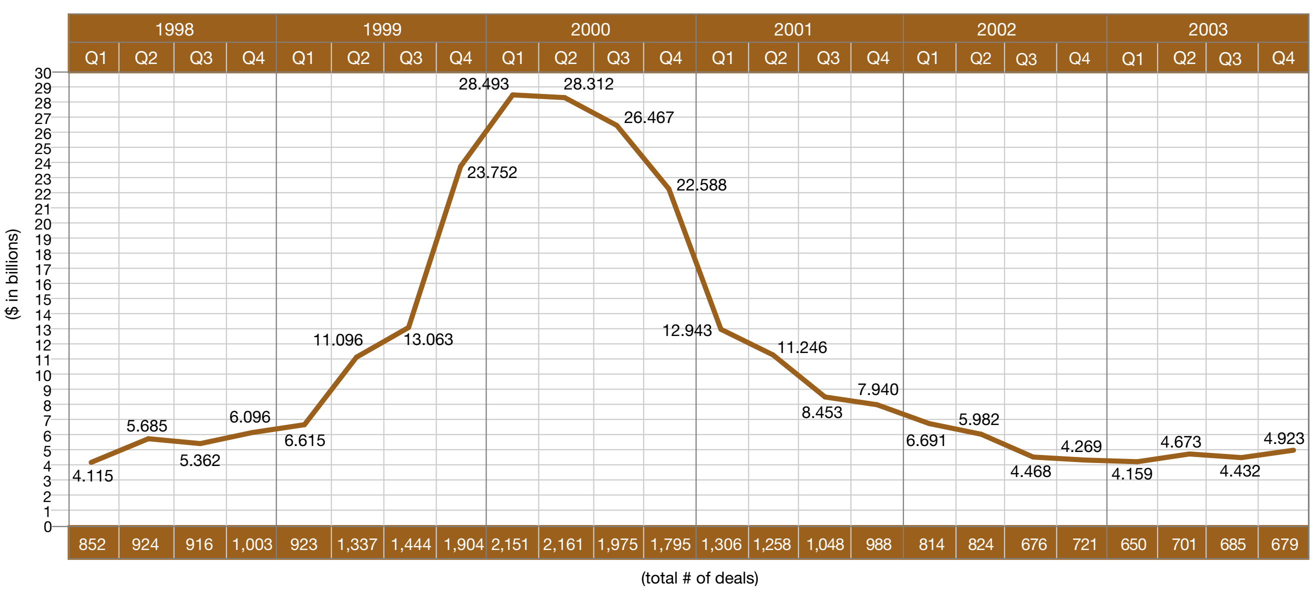
Tracy T. Lefteroff
tracy.t.lefteroff@us.pwc.com

Kirk Walden
kirk.walden@us.pwc.com

Total equity investments into venture-backed companies

Venture capital ended the year on an up note in the fourth quarter of 2003 with investments totaling $4.9 billion in 679 companies. This figure is up from $4.4 billion in the third quarter of 2003, and is the highest amount invested since the second quarter of 2002 when the total reached $6.0 billion.

For full-year 2003, investments totaled $18.2 billion in 2,715 companies. The 15% decline from 2002's $21.4 billion was small compared to decreases over the last three years, indicating that venture capital is settling out at a comfortable, sustainable level. The relatively consistent levels of quarterly investing throughout 2003 further support this assessment.

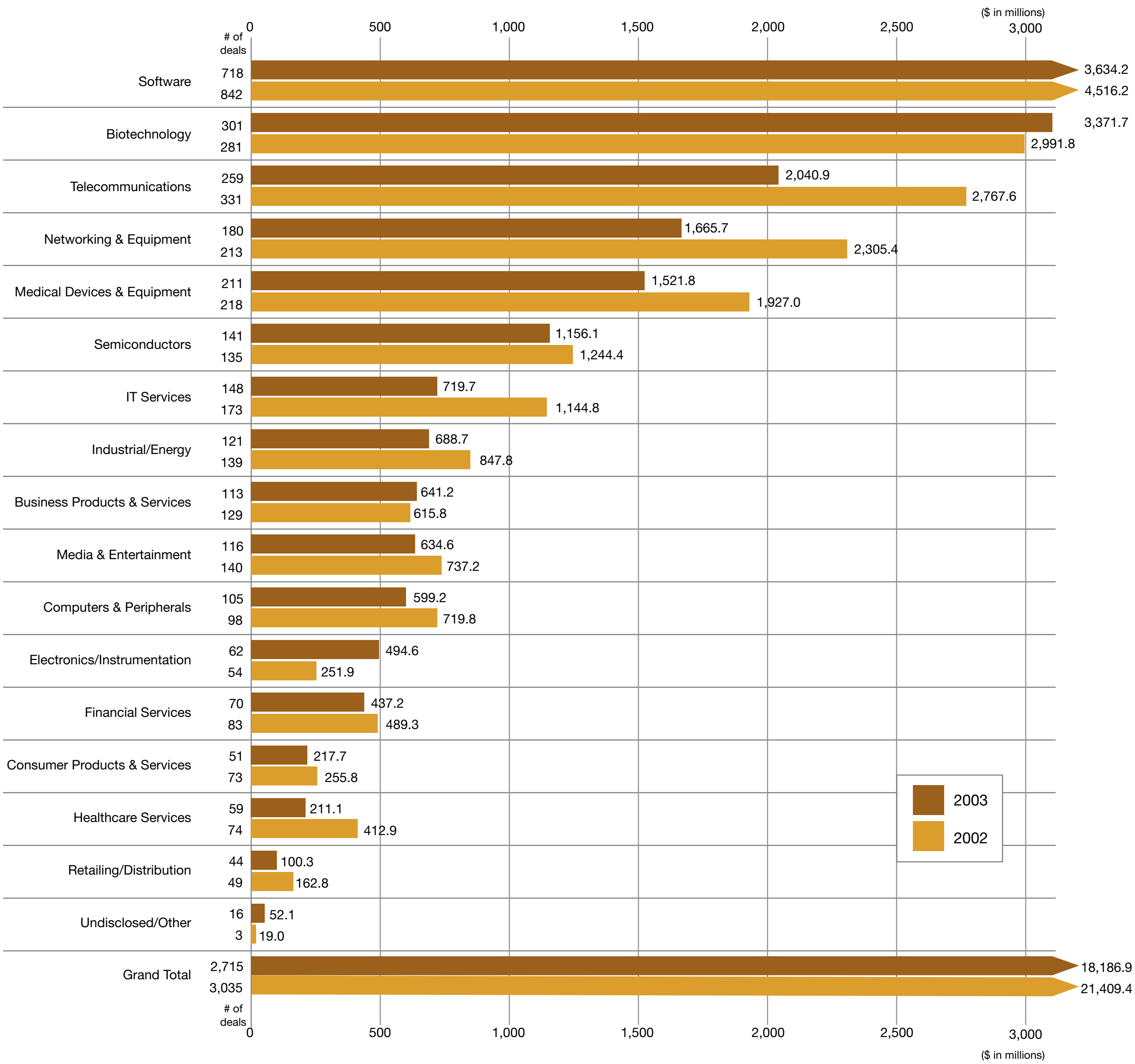


*connectedthinking

PRICEWATERHOUSECOOPERS

Investments by industry 2002 to 2003

For full-year 2003, the Life Sciences sector (Biotechnology and Medical Devices, together) attracted $4.89 billion, or 27% of all venture capital. This represented the highest proportion directed to Life Sciences in the last 12 years. The largest single-industry category was Software, capturing $3.6 billion over the full year. That figure amounted to 20% of all investing, well in line with historical norms for the category. Telecommunications fell to $2.0 billion or 11% of all investing. Networking dropped to $1.7 billion or 9% of the total in 2003. At their historical peaks, Telecommunications accounted for as much as 17% of all venture capital, and Networking accounted for 14%.

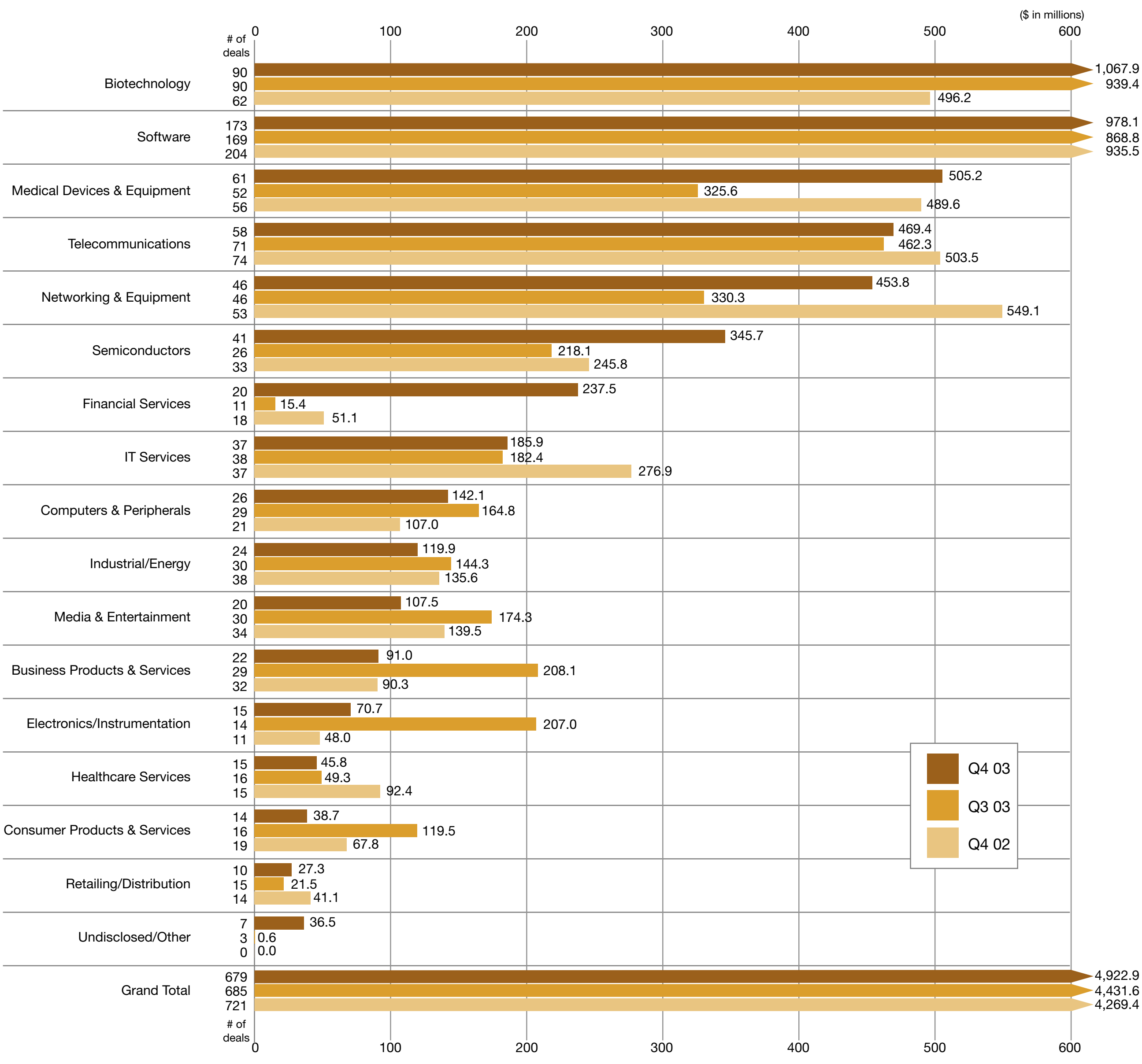


Definitions of the industry categories can be found on the MoneyTree™ Web site at www.pwcmoneytree.com.

Data is current as of January 27, 2004. PricewaterhouseCoopers, Thomson Venture Economics, and the National Venture Capital Association have taken responsible steps to ensure that the information contained in the MoneyTree™ Survey has been obtained from reliable sources. However, none of the parties can warrant the ultimate validity of the data obtained in this manner. Results are updated periodically. Therefore, all data is subject to change at any time.

Investments by industry
Q4 2002, Q3 2003, Q4 2003

Biotechnology's momentum continued in the fourth quarter with $1.1 billion of investment. For the second consecutive quarter and only the second time in the past eight years, Biotechnology was the leading industry category, outpacing Software, which accounted for $978 million in the quarter. Eight of the top ten industries experienced an increase in financing from the prior quarter. The Financial Services, Semiconductor, and Medical Devices & Equipment industries experienced the largest gains in the fourth quarter, up significantly from Q3 2003.



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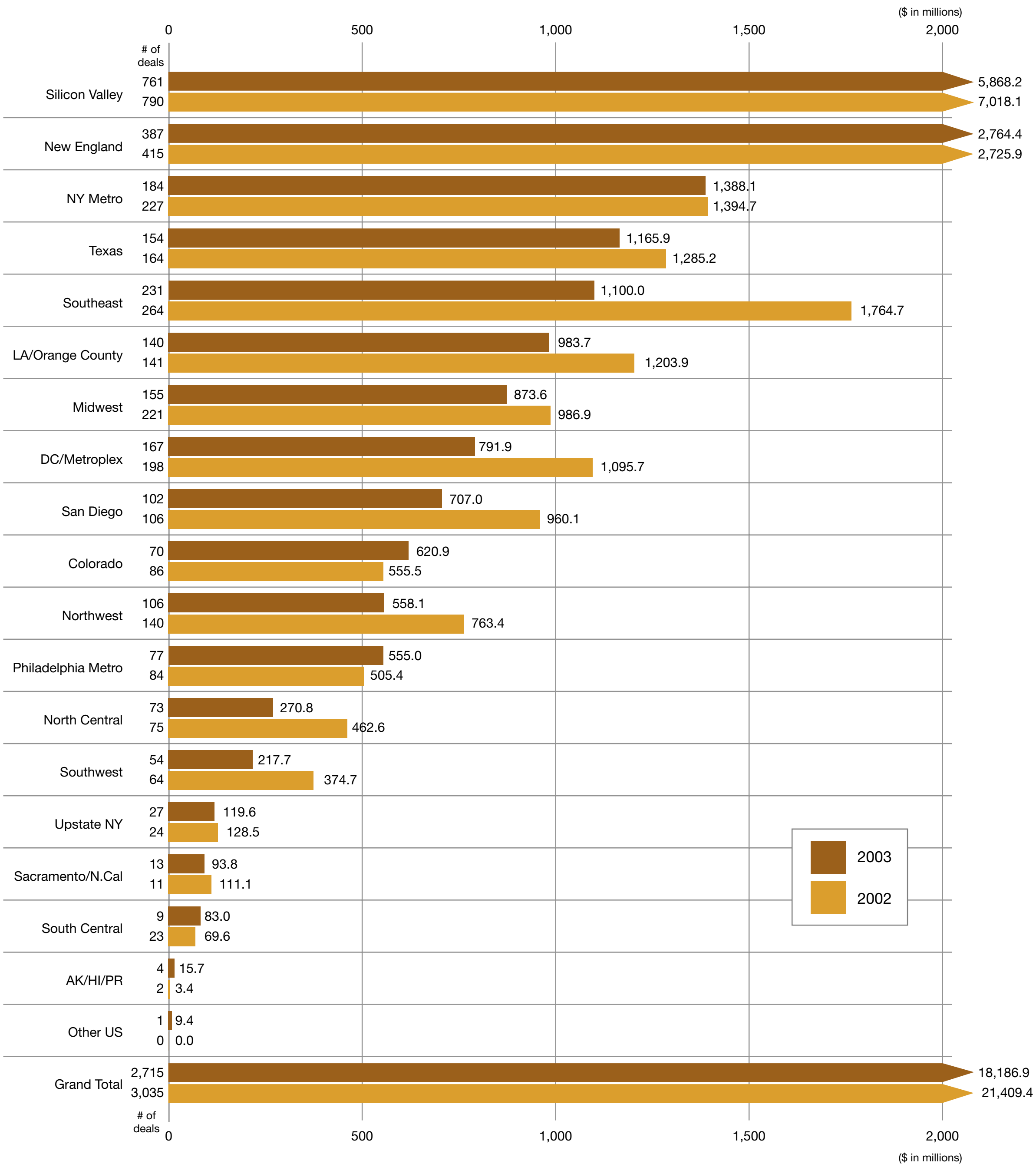
Investments by region 2002 to 2003

Of the ten regions garnering the biggest amounts of venture capital in 2003, only two experienced an increase in investing over the prior year. New England, capturing $2,764 million, increased two percent while Colorado, securing $621 million, climbed 12% over 2002. Taken together, the top three regions in 2002—Silicon Valley, New England, and NY Metro—accounted for 55% of the dollars invested and 49% of the deals reported in 2003.



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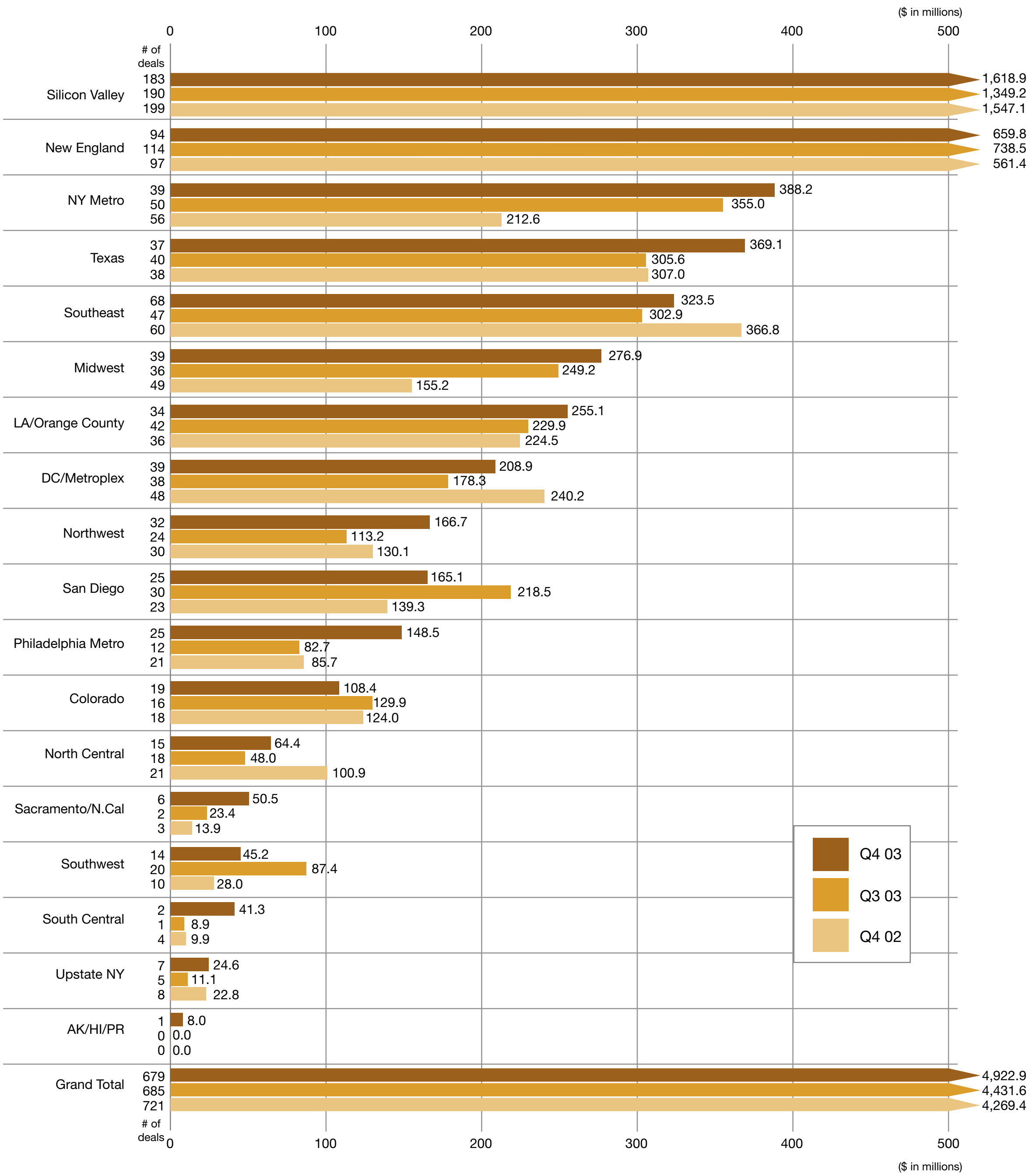
Investments by region
Q4 2002, Q3 2003, Q4 2003

Eight of the ten largest regions in Q4 2003 recorded an increase in investments over the prior quarter. The Northwest, capturing $167 million, increased 47% while Texas, securing $369 million, climbed 21% over Q3 2003. Taken together, the top three regions in Q4 2003—Silicon Valley, New England, and NY Metro—accounted for 54% of the dollars invested and 47% of the deals reported.



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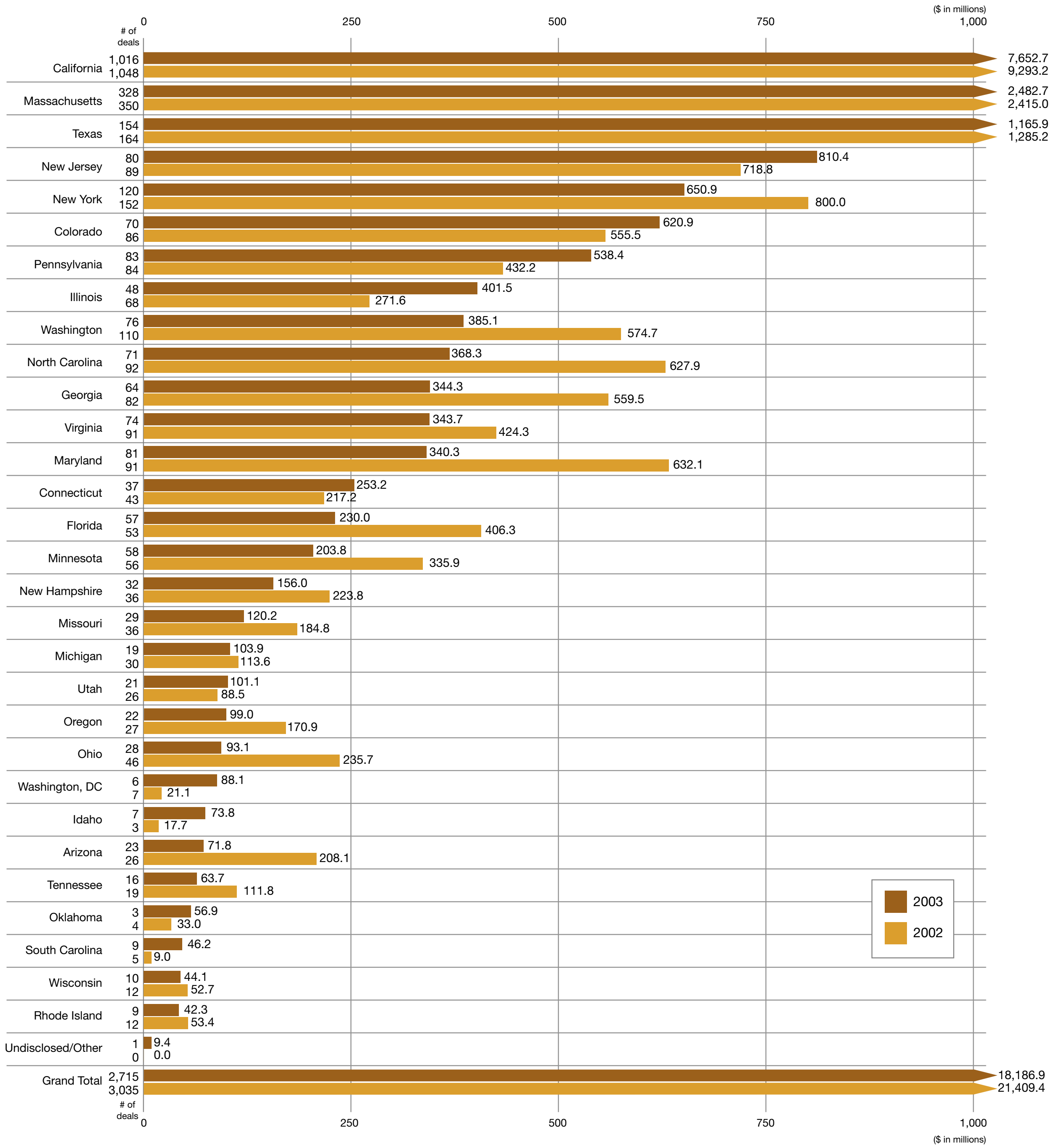
full-year & Q4 2003 results US Report

MoneyTree™

Investments by state 2002 to 2003



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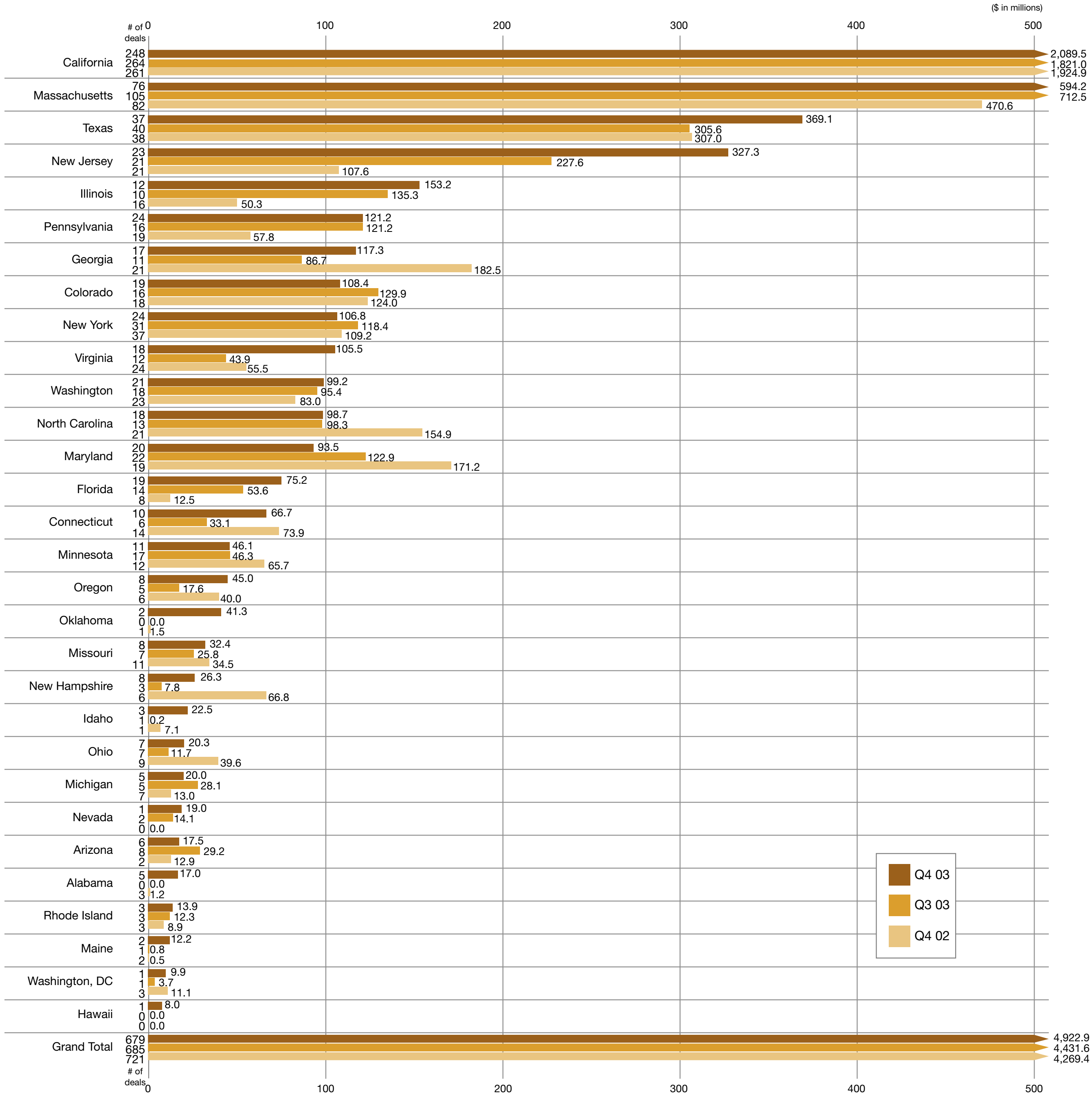
Investments by state
Q4 2002, Q3 2003, Q4 2003



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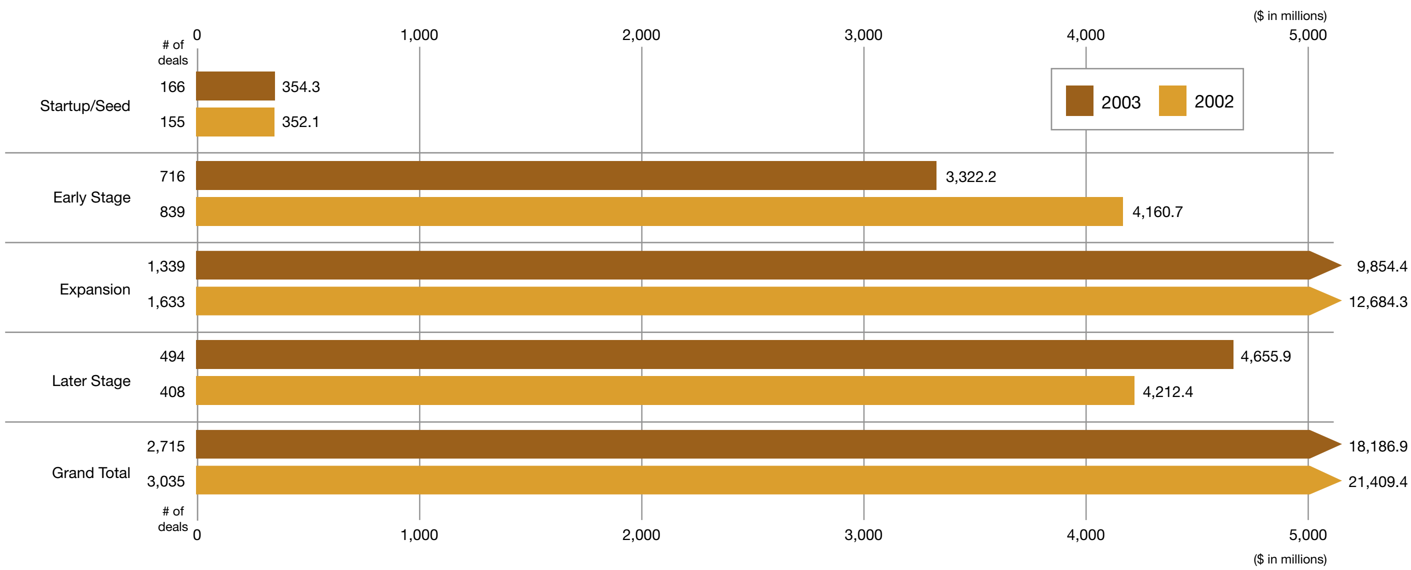
Investments by stage of development

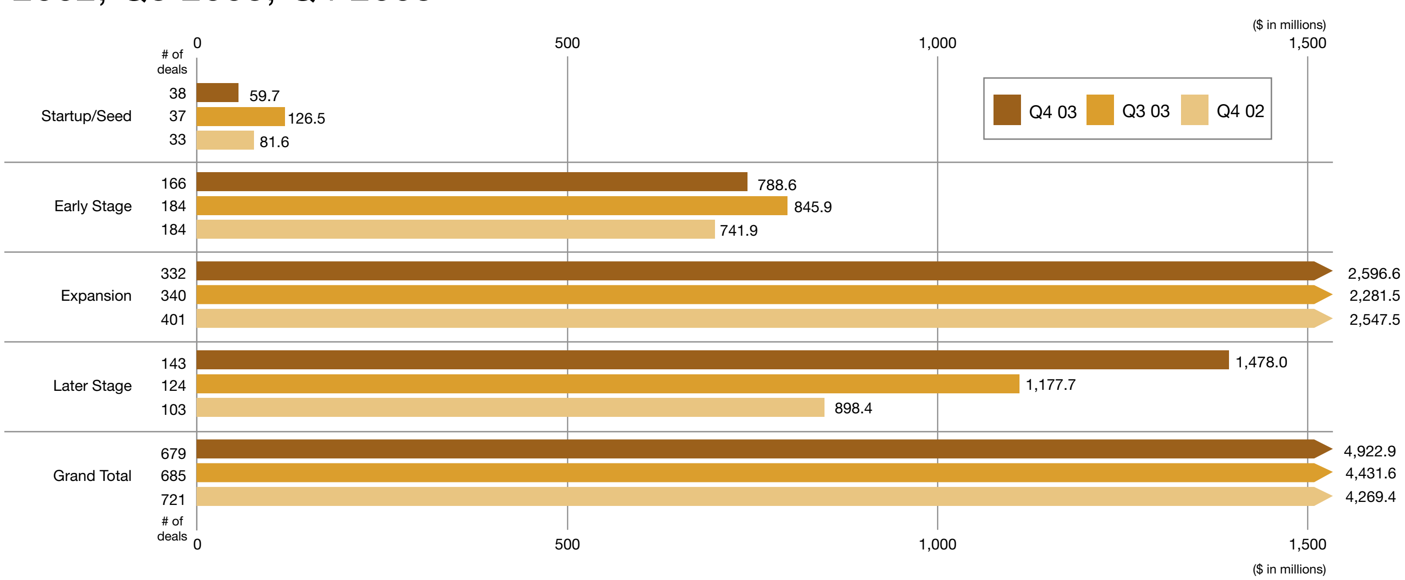
There was a marked shift toward later stage investing in the fourth quarter and for the entire year 2003 as existing portfolio companies moved further toward maturity. Later stage investing in Q4 2003 reached $1.5 billion, the highest level in two years. For the full year, later stage investments totaled $4.7 billion, or 26% of all venture capital. Notably, the 26% allocation for 2003 was the highest percentage of later stage investing in at least 20 years.

With a surge in the later stage, investments in both expansion and early stage companies declined. For the full-year 2003, $9.9 billion went to expansion stage companies, or 54% of all venture capital. That compares to $12.7 billion or 59% of all venture capital in 2002. Early stage companies accounted for $3.3 billion invested in 716 companies, representing 18% of all dollars and 26% of all companies. These figures were down marginally from 2002.

2002 to 2003



Q4 2002, Q3 2003, Q4 2003



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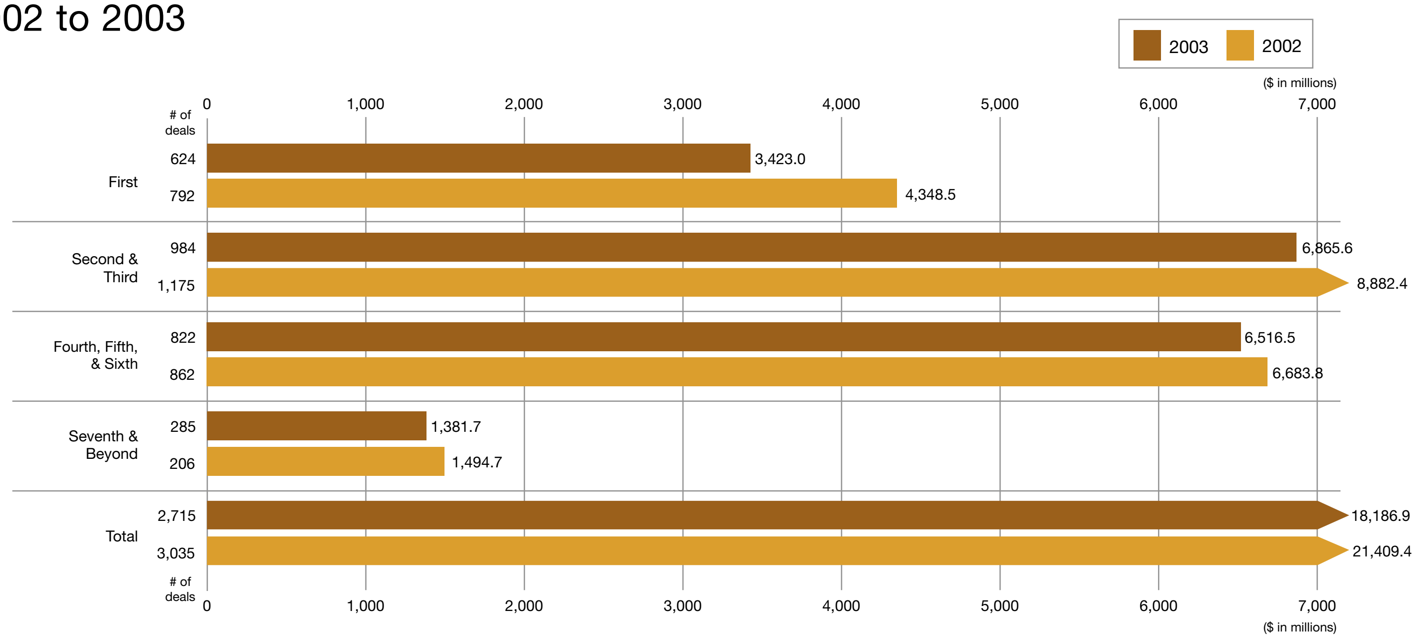
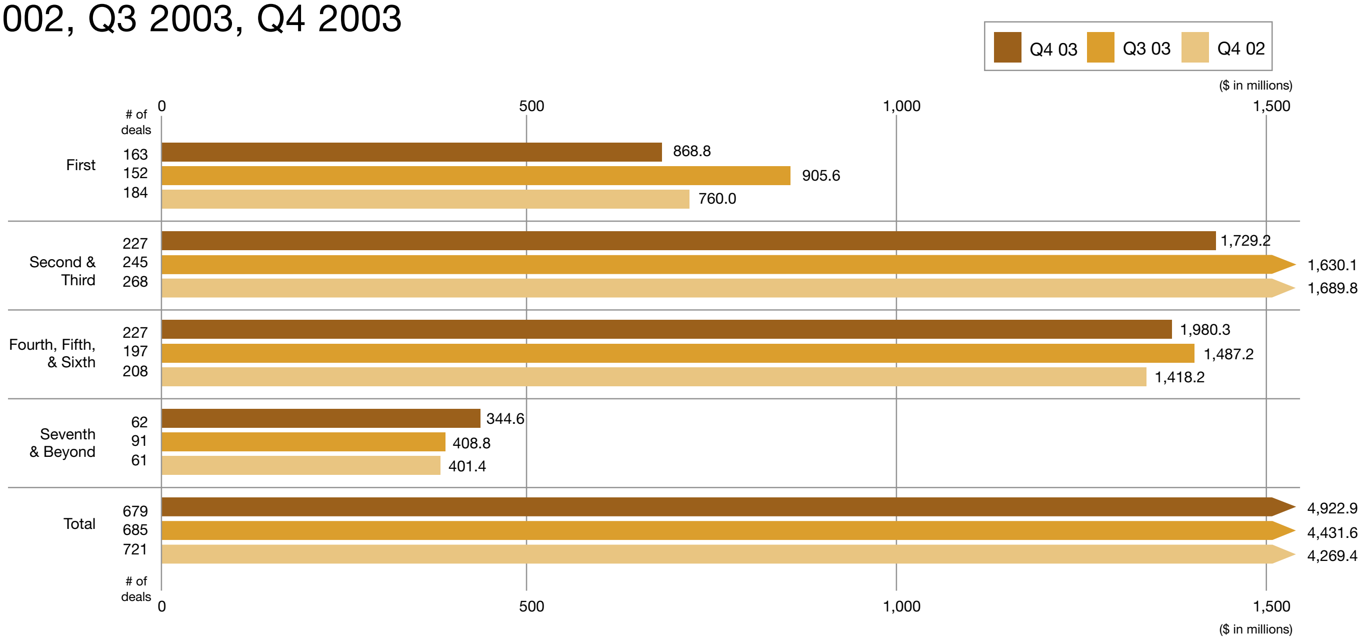
Investments by sequence of financing

A total of 163 companies received financing for the first time in Q4 2003, up slightly from 152 companies in the third quarter. For full-year 2003, 624 companies got first-time funding totaling $3.4 billion compared to 792 companies and $4.3 billion in 2002. First-time funding represented 23% of all companies in 2003, down slightly from 26% of all companies in 2002. In dollar terms, 2003 first-time financings were 19% of all venture capital, also a marginal decline from 20% in 2002.

2002 to 2003



Q4 2002, Q3 2003, Q4 2003



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Full-year 2003 most active venture investors

The most active venture investors in the U.S. closed 14 or more deals each during the full-year 2003. Of the more than 7,400 transactions reported in 2003, the most active firms accounted for 2,358, approximately 32% of the total. The top 10 firms accounted for about 6% of the deals completed in the year. For the third year in a row, New Enterprise Associates topped the list with a total of 73 deals in 2003. Draper Fisher Jurvetson came in next with 52 deals. Sevin Rosen Funds, Polaris Venture Partners, and U.S. Venture Partners were also at the top of the list, reporting more than 45 deals each in 2003.

	Location	# of Deals
New Enterprise Associates	Baltimore, MD	73
Draper Fisher Jurvetson	Redwood City, CA	52
Sevin Rosen Funds	Dallas, TX	50
Polaris Venture Partners	Waltham, MA	48
U.S. Venture Partners	Menlo Park, CA	47
Intel Capital	Santa Clara, CA	43
Mobius Venture Capital	Palo Alto, CA	43
Austin Ventures	Austin, TX	42
Warburg Pincus	New York, NY	42
Venrock Associates	New York, NY	40
Advanced Technology Ventures	Waltham, MA	38
Mayfield Fund	Menlo Park, CA	37
St. Paul Venture Capital	Eden Prairie, MN	37
J.P. Morgan Partners	New York, NY	35
TL Ventures	Wayne, PA	35
Menlo Ventures	Menlo Park, CA	33
Oxford Bioscience Partners	Boston, MA	31
Versant Ventures	Menlo Park, CA	31
Atlas Venture	Waltham, MA	30
Crossbow Ventures	West Palm Beach, FL	30
Village Ventures	Williamstown, MA	30
ComVentures	Palo Alto, CA	29
Highland Capital Partners	Lexington, MA	29
InterWest Partners	Menlo Park, CA	29
MPM Capital	Boston, MA	29
Kleiner Perkins Caufield & Byers	Menlo Park, CA	28
Morgenthaler Ventures	Menlo Park, CA	28
Sutter Hill Ventures	Palo Alto, CA	28
Flagship Ventures	Cambridge, MA	27
Sequoia Capital	Menlo Park, CA	27
Alta Partners	San Francisco, CA	26
Enterprise Partners	La Jolla, CA	26
Bay Partners	Cupertino, CA	25
North Bridge Venture Partners	Waltham, MA	25
Solstice Capital	Boston, MA	25
Accel Partners	Palo Alto, CA	24
Domain Associates	Princeton, NJ	24
Foundation Capital	Menlo Park, CA	24
Prism Venture Partners	Westwood, MA	24
Redpoint Ventures	Menlo Park, CA	23
3i (US)	Waltham, MA	22
Benchmark Capital	Menlo Park, CA	22
Charles River Ventures	Waltham, MA	22
Johnson & Johnson Development Corporation	New Brunswick, NJ	21
Kodiak Venture Partners	Waltham, MA	21
Novus Ventures	Cupertino, CA	21
River Cities Capital Funds	Cincinnati, OH	21
Sofinnova Ventures	San Francisco, CA	21
Zero Stage Capital	Cambridge, MA	21
BA Venture Partners	Foster City, CA	20
Bessemer Venture Partners	Larchmont, NY	20
Canaan Partners	Rowayton, CT	20
Crescendo Venture Management	Palo Alto, CA	20
Frazier & Company	Seattle, WA	20
Maryland Dept. of Business & Economic Development	Baltimore, MD	20
Battery Ventures	Wellesley, MA	19
Boston Millennia Partners	Boston, MA	19
Matrix Partners	Waltham, MA	19
Mellon Ventures	Pittsburgh, PA	19
Sigma Partners	Menlo Park, CA	19
Walden International	San Francisco, CA	19
Band of Angels	Menlo Park, CA	18
Doll Capital Management	Menlo Park, CA	18
Intersouth Partners	Durham, NC	18
Palomar Ventures	Santa Monica, CA	18
Sprout Group	New York, NY	18
VantagePoint Venture Partners	San Bruno, CA	18
ARCH Venture Partners	Chicago, IL	17
Greylock	Waltham, MA	17
Sierra Ventures	Menlo Park, CA	17
Three Arch Partners	Portola Valley, CA	17
Burrill & Company	San Francisco, CA	16
HealthCare Ventures	Princeton, NJ	16
RRE Ventures	New York, NY	16
Trident Capital	Palo Alto, CA	16
U.S. Bancorp Piper Jaffray Ventures	Minneapolis, MN	16
Blue Chip Venture Company	Cincinnati, OH	15
CMEA Ventures	San Francisco, CA	15
Collinson, Howe & Lennox	Stamford, CT	15
Globespan Capital Partners	Boston, MA	15
Maryland Technology Development Corporation	Columbia, MD	15
Noro Moseley Partners	Atlanta, GA	15
Oak Investment Partners	Westport, CT	15
Adams Capital Management	Sewickley, PA	14
Alloy Ventures	Palo Alto, CA	14
The Carlyle Group	Washington, DC	14
Columbia Capital	Alexandria, VA	14
Commonwealth Capital Ventures	Wellesley, MA	14
General Catalyst Partners	Cambridge, MA	14
Granite Ventures	San Francisco, CA	14
Lazard Technology Partners	New York, NY	14
Lightspeed Venture Partners	Menlo Park, CA	14
Norwest Venture Partners	Palo Alto, CA	14
Pequot Capital Management	New York, NY	14
Prospect Venture Partners	Palo Alto, CA	14
Rho Ventures	New York, NY	14
Schroder Ventures Life Sciences	Boston, MA	14
Storm Ventures	Palo Alto, CA	14
Vanguard Ventures	Palo Alto, CA	14

Q4 2003 most active venture investors

The most active venture investors in the U.S. closed four or more deals each in Q4 2003. Of the more than 1,800 transactions reported in Q4 2003, the most active firms accounted for 715, approximately 38% of the total. The top 11 firms accounted for nearly 9% of the deals completed in the quarter. Polaris Venture Partners topped the list with a total of 21 deals, while Mobius Venture Capital came in next with 18 deals. New Enterprise Associates and Sevin Rosen Funds were also at the top of the list, each reporting more than 15 deals during the quarter.

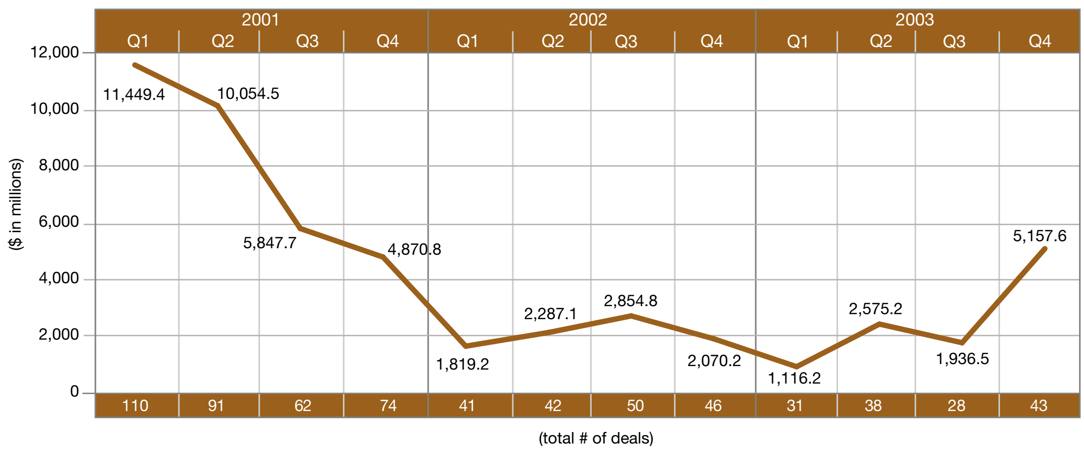
	Location	# of Deals
Polaris Venture Partners	Waltham, MA	21
Mobius Venture Capital	Palo Alto, CA	18
New Enterprise Associates	Baltimore, MD	17
Sevin Rosen Funds	Dallas, TX	16
Menlo Ventures	Menlo Park, CA	14
Draper Fisher Jurvetson	Redwood City, CA	13
InterWest Partners	Menlo Park, CA	13
St. Paul Venture Capital	Eden Prairie, MN	13
Versant Ventures	Menlo Park, CA	12
Village Ventures	Williamstown, MA	12
Warburg Pincus	New York, NY	12
Alta Partners	San Francisco, CA	11
U.S. Venture Partners	Menlo Park, CA	11
Atlas Venture	Waltham, MA	10
ComVentures	Palo Alto, CA	10
Foundation Capital	Menlo Park, CA	10
Oxford Bioscience Partners	Boston, MA	10
Advanced Technology Ventures	Waltham, MA	9
Bay Partners	Cupertino, CA	9
Boston Millennia Partners	Boston, MA	9
Burrill & Company	San Francisco, CA	9
Flagship Ventures	Cambridge, MA	9
Intel Capital	Santa Clara, CA	9
Kodiak Venture Partners	Waltham, MA	9
Crossbow Ventures	West Palm Beach, FL	8
Enterprise Partners	La Jolla, CA	8
Frazier & Company	Seattle, WA	8
Highland Capital Partners	Lexington, MA	8
Mellon Ventures, Inc.	Pittsburgh, PA	8
Prism Venture Partners	Westwood, MA	8
Sequoia Capital	Menlo Park, CA	8
U.S. Bancorp Piper Jaffray Ventures	Minneapolis, MN	8
3i (US)	Waltham, MA	7
Blue Chip Venture Company	Cincinnati, OH	7
JK&B Capital	Chicago, IL	7
MPM Capital	Boston, MA	7
RRE Ventures	New York, NY	7
Schroder Ventures Life Sciences	Boston, MA	7
TL Ventures	Wayne, PA	7
Alexander Hutton Venture Partners	Seattle, WA	6
Austin Ventures	Austin, TX	6
Ben Franklin Technology Partners	Philadelphia, PA	6
Benchmark Capital	Menlo Park, CA	6
General Catalyst Partners	Cambridge, MA	6
Intersouth Partners	Durham, NC	6
Johnson & Johnson Development Corporation	New Brunswick, NJ	6
Kleiner Perkins Caufield & Byers	Menlo Park, CA	6
Lehman Brothers	Jersey City, NJ	6
Mayfield Fund	Menlo Park, CA	6
Noro Moseley Partners	Atlanta, GA	6
Sofinnova Ventures	San Francisco, CA	6
Three Arch Partners	Portola Valley, CA	6
Accel Partners	Palo Alto, CA	5

	Location	# of Deals
Advantage Capital Partners	New Orleans, LA	5
ARCH Venture Partners	Chicago, IL	5
BA Venture Partners	Foster City, CA	5
Comcast Interactive Capital	Philadelphia, PA	5
Crescendo Venture Management	Palo Alto, CA	5
Globespan Capital Partners	Boston, MA	5
Grotech Capital Group	Timonium, MD	5
HarbourVest Partners	Boston, MA	5
ITU Ventures	Los Angeles, CA	5
J.P. Morgan Partners	New York, NY	5
Labrador Ventures	Palo Alto, CA	5
Lightspeed Venture Partners	Menlo Park, CA	5
Maryland Technology Development Corporation	Columbia, MD	5
Morgenthaler Ventures	Menlo Park, CA	5
Novus Ventures	Cupertino, CA	5
ONSET Ventures	Menlo Park, CA	5
Storm Ventures	Palo Alto, CA	5
Sutter Hill Ventures	Palo Alto, CA	5
Technology Crossover Ventures	Palo Alto, CA	5
UV Partners	Salt Lake City, UT	5
Adams Capital Management	Sewickley, PA	4
BioAsia Investments	Palo Alto, CA	4
California Technology Ventures	Pasadena, CA	4
Canaan Partners	Rowayton, CT	4
Centennial Ventures	Denver, CO	4
Collinson, Howe & Lennox	Stamford, CT	4
Columbia Capital	Washington, DC	4
Commonwealth Capital Ventures	Wellesley, MA	4
Crosslink Capital	San Francisco, CA	4
Delphi Ventures	Menlo Park, CA	4
Edison Venture Fund	Lawrenceville, NJ	4
IDG Ventures	San Francisco, CA	4
Institutional Venture Partners	Menlo Park, CA	4
Longworth Venture Partners	Waltham, MA	4
NeuroVentures Capital	Charlottesville, VA	4
New Vantage Group	Vienna, VA	4
Palomar Ventures	Santa Monica, CA	4
Radius Ventures	New York, NY	4
Red Rock Ventures	Palo Alto, CA	4
Redpoint Ventures	Menlo Park, CA	4
River Cities Capital Funds	Cincinnati, OH	4
S.R. One, Limited	West Conshohocken, PA	4
Sequel Venture Partners	Boulder, CO	4
Shepherd Ventures	Solana Beach, CA	4
Sigma Partners	Menlo Park, CA	4
Solstice Capital	Boston, MA	4
Sprout Group	New York, NY	4
Trident Capital	Palo Alto, CA	4
TriState Investment Group	Chapel Hill, NC	4
Venrock Associates	New York, NY	4
Walden International	San Francisco, CA	4
Zero Stage Capital	Cambridge, MA	4

Data is current as of January 27, 2004. PricewaterhouseCoopers, Thomson Venture Economics, and the National Venture Capital Association have taken responsible steps to ensure that the information contained in the MoneyTree™ Survey has been obtained from reliable sources. However, none of the parties can warrant the ultimate validity of the data obtained in this manner. Results are updated periodically. Therefore, all data is subject to change at any time.

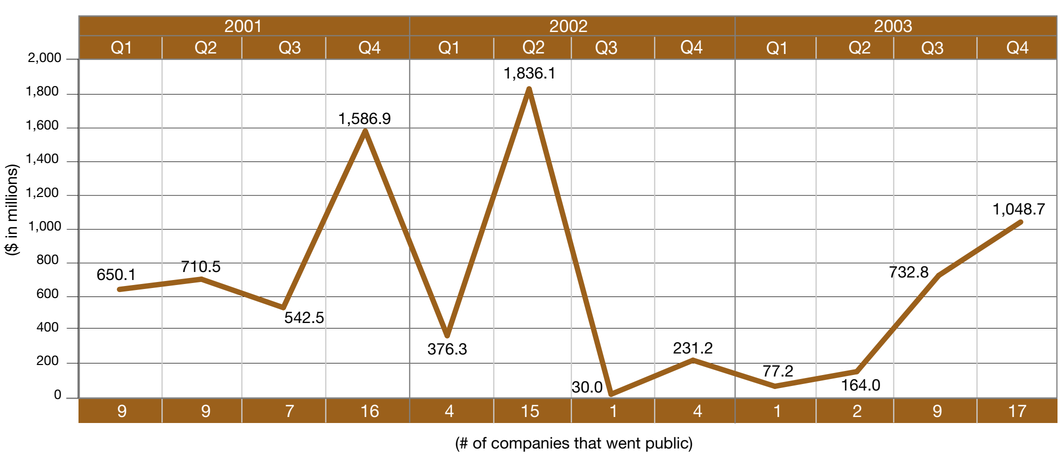
Funds raised by venture capital firms 2001 to 2003

Commitments made to venture capital funds ended the year on an increasing trend with 43 funds closing on $5.2 billion in the fourth quarter of 2003, according to Thomson Venture Economics and the National Venture Capital Association. The amount raised by venture capital funds in the fourth quarter represents almost half of the total amount raised in all of 2003. For full-year 2003, 113 venture capital funds raised $10.8 billion, a level last seen in 1995 when 173 funds raised $10 billion.



Venture-backed initial public offerings 2001 to 2003

Seventeen venture-backed companies raised $1.05 billion through IPOs in the fourth quarter of 2003, up substantially from the prior quarter. The fourth quarter saw the largest total number of IPOs for one quarter since the fourth quarter of 2000, when 21 companies went public. The increase in venture-backed IPOs mirrors the increased activity in the overall IPO market, where a total of 46 companies went public during the fourth quarter.



Source: Thomson Financial Venture Economics/National Venture Capital Association
Note: Yearly totals reflect the number of unduplicated venture capital funds securing commitments, therefore the quarterly number of venture capital funds cannot be added to obtain annual figures.
Disclaimer: Data is current as of February 2, 2004. Data is continuously updated and therefore is subject to change.

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The latest in corporate governance? Security

You may choose your M&A partner carefully, but beware of the in-laws!

Move over synergy. The term most heard in 2004 may just be: **security**. Given the current emphasis on corporate integrity and control, public and private companies alike must make effective company security a critical part of maintaining public and customer confidence, competitive advantage, and the ability to unlock the value of a merger or acquisition.

A recent crop of corporate governance initiatives, from Sarbanes-Oxley to Senate Bill 1386 in California—which requires that businesses inform employees or customers if their individual information has been disclosed under unauthorized circumstances—underscores the focus.

More than ever, security must be addressed as a **business** issue—encompassing not only technology, but company-wide policies, procedures, and general awareness. It is no surprise that security is often thought of as a technology issue. The evolution of business networks and their challenges has had a very public coming of age. “Especially with more established companies, the majority of networks that are in place today were built to expedite the exchange of e-mail,” explains Jay Bolton, a partner with PricewaterhouseCoopers’ Security Practice in San Francisco. “Now, they have evolved into mission-critical systems. With the growing advent of a remote workforce—where people are on the road doing outside sales or consultants are working with companies from home and require access to those same network resources—the network perimeter has become much more porous than it used to be. Companies are letting in vendors and customers, giving employees different ways to access systems remotely and, in some cases, giving access to competitors for collaborative ventures. This problem is only made worse by introducing new technologies such as wireless access and PDA devices that are hard to secure.”

Even when businesses do a great job of ensuring the security of their own internal systems, they can still stumble when they haven’t taken the same care to check out the security policy and procedures of an M&A partner. Bolton is reminded of the story of

"Too often we see only a small percentage of companies look at security as part of due diligence for a merger," says Bolton. "Post-merger is too late to discover that your M&A partner has relationships that allow third parties onto your network that you don't necessarily want to have."

two companies involved in an M&A transaction that narrowly averted disaster. The acquiring company had been outsourcing some software development to a company in India that didn't have strong security. Fortunately, when the M&A partner's systems were connected the company being acquired had solid security mechanisms in place. It detected a problem.

"The company being acquired found that its key customer system was one of the targets of the intruders coming through the acquiring bank's connection from its vendor partner in India," Bolton says. "Fortunately, they were able to thwart the intruders once this activity had been discovered. The acquiring company was never able to determine what else these intruders had done on their networks before the problem was discovered. The companies were both in the financial services industry and the customers' systems could have been used to transfer funds to fictitious accounts and potentially to transfer the funds outside the organization."

Not all companies discover that their systems are poorly configured for security. Anecdotal evidence of system violation abounds, but often an organization doesn't have the monitoring controls in place to prove it. Some situations that might prompt a review of security standards include:

- A competitor comes out with a proposal that undercuts your proposal by a smaller margin enabling them to still make money but win the bid.
- An upstart company beats you to market with a new feature, functionality, or business model that is awfully similar to what you were thinking.
- A competitor comes to market with a product you were in the process of refining.
- There has been a rash of employee hirings to a competitor as a result of the employee information being obtained and headhunters directly targeting employees with accurate salary information.

"Security is not always about the technology, or somebody hacking into your network and getting at your intellectual property or critical systems," says Bolton. "Sometimes it can be as simple as someone calling your receptionist and saying 'Connect me to your head of product development.'"

Good security comes down to putting effective policies and practices in place throughout daily operations and making sure employees are aware of security issues. "It is also recognizing that you could do an amazingly good job with your own internal system, but when you have a merger partner that comes along you need to do enough due diligence to make sure that the new merger partner has the same level of protection," Bolton says.

Many organizations have deployed firewalls on their networks and have considered the security problem solved. "Firewalls are specialized devices that are designed to protect the parameter of your network from unauthorized individuals or programs. However, many of the security problems and attacks these days are designed to go through your firewall and take advantage of security problems within your network. A firewall is part of your solution, but it is not the only part."

Besides a hacker or malicious person, automated attacks—such as a worm or a virus—can hit major systems and cause significant repercussions. "Increasingly these malicious programs are causing significant operational issues that may impact your ability to run your business. This can lead to lost sales and may cause long-term lack of confidence in your organization," says Bolton.

Patch management, or making sure your system's antivirus/worm definitions are up to date, is just part of the larger picture of understanding how the perimeter of your network is controlled, what your security policy and practices are, and making sure that if you have an M&A partner, there is some harmonization of the security practices that you both have. Bolton concludes: "In every new relationship there are problems that must be addressed to create the synergies that the new organization is trying to achieve. With all the other problems involved, it makes sense to evaluate security up-front and make sure that this won't be another issue that will impact the strategic value of the union."

Directory:
Jay Bolton
jay.w.bolton@us.pwc.com

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nextwave feature contributor, Janice K. Mandel, is an independent writer specializing in fast-growth businesses and the people who make them run. She can be reached at **mandel.schneider@erols.com**.

Regulatory buzz

Q4 2003

With lots of regulation in the pipeline—but few definitive final rulings—this quarter we've chosen to feature content from two events held in late 2003 addressing the realities of Sarbanes-Oxley on pre-IPO companies and its implications for audit committee members.

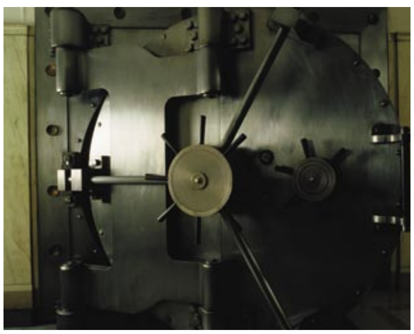
On December 18, 2003 PR Newswire presented, "**The Effect of Sarbanes-Oxley on Pre-IPO Companies**," one in a series of educational roundtables. This Webcast featured Adam Golden, Partner, Corporate & Finance Department, Kaye Scholer LLP; Michael Wagner, Managing Partner, New York Software Group, PricewaterhouseCoopers; Martin Howell, Equities Editor, Reuters America; and S. Randy Lampert, Managing Director, Morgan Joseph & Co.

Go to the following site to begin: http://www.videonewswire.com/event.asp?id=19264. (Available until March 31. Contact Rachel Asche for more information at **rachel.asche@prnewswire.com**.)

Last fall, stakeholders from the financial services industry gathered in New York for a PricewaterhouseCoopers' forum tailored for audit committee members: **Financial Services 2003 Audit Committee Forum**. This two-day event brought together boards of directors and audit committee members, attorneys, and industry leaders to share their views and practical experiences. The highlights from the forum provide an overview of the changes taking place since the passage of the Sarbanes-Oxley Act and how the industry has responded.

You may download a complete copy of the highlights from CFOdirect.com. Click on the "Industry Focus" tab on the home page, then "Banking and Capital Markets" in the left-hand navigation bar, and finally choose the "Industry Insights" subset.

Information security: a strategic guide for business



The PwC Global Technology Centre, in partnership with the Security & Technology practice, has recently published a new book on information security which you might find helpful as you consider how to include security in your M&A due diligence.

Information Security: A Strategic Guide for Business provides a methodology for integrating highly effective security management techniques into everyday business processes. Using this approach, companies can create new organizational synergies, leveraging their existing security technology investments to benefit a range of business functions. The book includes comprehensive coverage of the following areas:

- The Enterprise Security Business Model – A detailed security strategy, planning, implementation, and maintenance framework to help companies align security with their overall business objectives.
- Security Controls and Identity Management – Business process control guidelines and techniques to improve authentication, authorization, and access control so employees, partners, and customers can get the information they need, when they need it.
- Technology Infrastructure Security – Insights on how to develop organization-wide solutions and effectively use technology to enable the secure extended enterprise.
- Threat and Vulnerability Management – Ways to respond proactively to today's threat environment, including a comprehensive toolkit of technology and business process solutions.
- Vendors, Market Overview, and Forecast – Market leaders and innovators, the outlook for security software, hardware, and services; and predictions by practitioners and thought leaders on the future of enterprise information security management.

How to Order

Information Security: A Strategic Guide for Business can be purchased for US$49 by visiting **www.pwc.com/tech-forecast/order** or by calling +1.800.654.3387 (in the U.S. only) or +1.314.997.2540. You can also send a fax request to +1.314.997.1351.

American Express, MasterCard, and Visa are accepted. Payment by check also can be arranged.

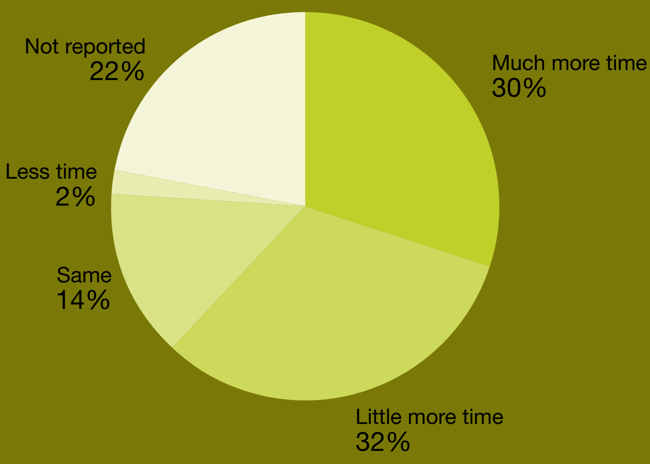
Corporate boards logging more time

In the wake of corporate scandals, the new Sarbanes-Oxley law and other governance and accounting requirements, nearly two-thirds of corporate boards of directors spent more time on their duties during the past year, according to a recent PricewaterhouseCoopers Management Barometer survey.

Despite the added workload, board compensation increased at only 20 percent of companies, and remained the same at 47 percent. The remainder was either uncertain about board compensation or did not report. For those receiving a raise, the average increase was 17.9 percent.

Eighty-nine percent of boards receiving increased compensation had put in additional time and effort. However, only 29 percent of boards putting in more time were rewarded with increased compensation.

Time spent on board responsibilities by board members



Increased commitment for audit committees

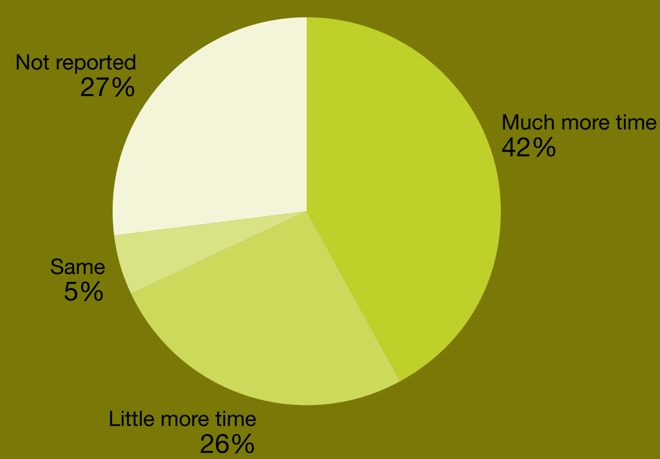
For board audit committees, whose duties have been significantly increased by the Sarbanes-Oxley Act, 68 percent spent more time. Despite the added workload, total compensation for audit committee members stayed about the same for 41 percent of companies surveyed. Only six percent received greatly increased compensation; and another 16 percent, somewhat increased remuneration. None were paid less, 14 percent were not certain, and 23 percent did not report. For those with an increase, the average increment was a substantial 26.2 percent.

Ninety-seven percent of audit committees receiving increased compensation had put in greater time and effort, but only 31 percent of those putting in more time and effort were rewarded with increased compensation.

"The new regulations have increased the time demands for audit committee members even more than for other directors," said Garrett Stauffer, leader of PricewaterhouseCoopers' US Corporate Governance Practice. "Directors generally are not serving on boards because of the pay. However, with the time commitment for board service increasing, compensation for directors will have to reflect the amount of effort involved."

To learn more or view other barometer survey data visit www.barometersurveys.com.

Time spent on audit committee responsibilities by audit committee members



PricewaterhouseCoopers' Private Equity Group

VisionToReality
A Programme Serving Companies with Extraordinary Potential

PricewaterhouseCoopers helps growth companies unlock extraordinary potential by turning vision into reality.

Business Advisors

Whether your company is an emerging business seeking venture capital, or an established company seeking to expand through a merger, acquisition, joint venture, or strategic alliance, you can rely on PricewaterhouseCoopers for a full range of support services. PricewaterhouseCoopers' global presence, extensive knowledge of capital markets, and network of financing relationships provides access and introductions to many sources of funds — both domestic and international.

Since PricewaterhouseCoopers is the first choice for accounting services among the nation's top 100 technology-based venture capital firms, we are knowledgeable about the issues that arise between entrepreneurs and venture capitalists. We excel at:

- Assisting you in identifying financing sources
- Serving as your advisor as you prepare for an IPO or position yourself to be acquired
- Providing due diligence and valuation services for acquisitions

If you'd like to contact the nearest PricewaterhouseCoopers' venture capital expert, please call our Technology Industry Hotline at 1.877.PwC.TICE or visit our Entrepreneur Resource Centre at our VisionToReality site at www.pwc V2R.com and click on "Find A Professional."

www.pwc.com/technology www.pwcnextwave.com

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PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax, and advisory services for public and private clients. More than 120,000 people in 139 countries connect their thinking, experience, and solutions to build public trust and enhance value for clients and their stakeholders.

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