

## EXECUTIVE SUMMARY

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# *Total U.S.*

*2003 Venture Capital Report*

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- ◆ *\$24.7 Billion Invested* ◆
- ◆ *2,368 Company Profiles* ◆
- ◆ *Over 2,000 Investor Profiles* ◆

## Executive Summary

### Introduction

In 2002, over \$24.6 billion in venture capital was invested in 2,368 private U.S.-based companies. A weakening economy allowed many investors to take advantage of opportunities to fund high growth companies at favorable valuations. Though most sectors experienced significant year-to-year declines in the number of companies raising capital and the total dollars raised, others continue to show great promise.

### Regions

The Bay Area continued its dominance in venture funding, receiving 32% of all dollars invested. The region was home to the largest number of funded ventures and its average deal size was \$1.3 million higher than the national average. Further, six of the sixteen companies that raised \$75 million or more in 2002 were located in the Bay Area, including **Caspian Networks**, **Pillar Data Systems**, **Mahi Networks**, **Atrica**, **Catena Networks**, and **Syndeo**.

#### Total U.S. Funding by Region – 2002

	Dollars Invested	Pct. of Total	No. of Cos.	Pct. of Total	Average Deal Size
Bay Area	\$7,900,310,000	32.0%	670	28.3%	\$11,791,507
New England	\$3,200,421,140	13.0%	318	13.4%	\$10,064,217
Central US	\$2,722,145,000	11.0%	265	11.2%	\$10,272,245
Northeast	\$2,545,337,000	10.3%	281	11.9%	\$9,058,139
Southern California	\$2,345,113,000	9.5%	202	8.5%	\$11,609,470
Southeast	\$1,998,637,000	8.1%	218	9.2%	\$9,168,060
Mid-Atlantic	\$1,483,815,000	6.0%	142	6.0%	\$10,449,401
Great Lakes	\$1,121,668,000	4.5%	102	4.3%	\$10,996,745
Pacific Northwest	\$835,250,000	3.4%	108	4.6%	\$7,733,796
Southwest	\$431,162,000	1.7%	47	2.0%	\$9,173,660
Other	\$97,360,000	0.4%	15	0.6%	\$6,490,667
<b>Totals:</b>	<b>\$24,681,218,140</b>	<b>100.0%</b>	<b>2368</b>	<b>100.0%</b>	<b>\$10,422,812</b>

Following the Bay Area was New England, which raised 13% of the nation's total. Seventy eight percent (78%) of the dollars invested in New England went to companies based in the Boston area, led by a \$70 million investment in **Infinity Pharmaceuticals** (Cambridge, MA). **Infinity Pharmaceuticals** is a drug discovery company focused on cancer, metabolic disorders, infectious disease and inflammatory disease. The financing was led by Advent Venture Partners and included Prospect Venture Partners, Venrock Associates and other top-tier life science investors. **Sophos** (Lynnfield, MA), a developer of security products that protect a company's IT infrastructure, received \$60 million from TA Associates.

Companies in the Central U.S. received over \$2.7 billion, led primarily by companies in the energy industry. **Latigo Petroleum** (Tulsa, OK) is a newly formed independent oil and gas company that raised \$300 million from Warburg Pincus and J.P. Morgan Partners. The Company plans to conduct an active exploration and development drilling program and to make strategic acquisitions in a targeted area of the Mid-Continent region of the U.S. **Bill Barrett Corp.** (Denver, CO) is an oil and gas exploration and production company that is developing strategies for exploration, acquisitions and development to

capitalize on natural gas reserves yet to be discovered and developed in the Rockies. The Company raised \$107.5 million in 2002.

Two hundred eighty one (281) companies based in New York, New Jersey and Pennsylvania (collectively “the Northeast”) raised funding in 2002, with an average deal size of \$9 million. These companies received \$2.5 billion, over 10% of the total invested nationwide. The two largest investments in this region were both based in New Jersey: **AAT Communications** (Iselin, NJ) and **Innovance Networks** (Piscataway, NJ). **AAT Communications**, which locates and licenses prime antenna sites to the radio communication industry, raised \$100 million. **Innovance Networks**, an optical networking company, raised \$55 million.

Southern California was the fifth leading region and was home to three of the top ten metropolitan areas: San Diego (5<sup>th</sup>), Los Angeles (6<sup>th</sup>) and Irvine/Santa Ana (10<sup>th</sup>). The top funding event in the region was a \$60 million investment in **Jazz Semiconductor** (Newport Beach, CA). **Jazz Semiconductor** manufactures semiconductor wafers that enable the development of high-performance, low-power radio-frequency wireless and broadband wireline communications products.

## Sectors

Nearly forty percent (38.8%) of the venture capital invested went to companies in the Connectivity sector, which includes networking ventures, semiconductor companies, broadband and telecommunications companies, and wireless solution providers. These companies raised over \$9.5 billion and included three companies that received investments of \$100 million or more: **Caspian Networks** (\$120 million), **Pillar Data Systems** (\$100 million), and **AAT Communications** (\$100 million).

### Total U.S. Funding by Sector – 2002

	Dollars Invested	Pct. of Total	No. of Cos.	Pct. of Total	Average Deal Size
Connectivity	\$9,574,239,000	38.8%	775	32.7%	\$12,353,857
Healthcare	\$6,338,664,140	25.7%	542	22.9%	\$11,694,952
Business Software & Services	\$6,068,768,000	24.6%	763	32.2%	\$7,953,824
E-Content & Commerce	\$1,137,197,000	4.6%	169	7.1%	\$6,728,976
Other	\$1,562,350,000	6.3%	119	5.0%	\$13,128,992
<b>Totals:</b>	<b>\$24,681,218,140</b>	<b>100.0%</b>	<b>2368</b>	<b>100.0%</b>	<b>\$10,422,812</b>

The Healthcare sector raised 25.7% of the total venture dollars, up from only 15.8% in 2001. This sector was led by a \$150 million investment in **Ovation Pharmaceuticals** (Deerfield, IL). Ovation Pharmaceuticals acquires under-promoted branded pharmaceutical products and promising late-stage development products. The Company increases the sales of acquired products through active selling efforts, creative marketing programs, and product life cycle activities that focus on developing new formulations, new indications, and other product improvements. **Surgis** (Nashville, TN), a surgical services company that owns and operates ambulatory surgery centers in partnership with physicians and hospitals, raised \$83.3 million of an ongoing \$100 million financing commitment made by New Mountain Capital.

Though its average deal size was considerably lower than that of the Connectivity and Healthcare sectors, seven hundred sixty three (763) companies in the Business Software & Services sector raised funding in 2002. The Mid-Atlantic region was home to the largest deal in this sector – an \$81.25 million investment in **USi** (Annapolis, MD). **USi** is an enterprise Application Service Provider that offers comprehensive eBusiness application services. The Company received its funding from Bain Capital, and shortly thereafter merged with Interpath, another Bain portfolio company.

The E-Content & Commerce sector experienced the greatest decline in 2002, dropping from \$4.4 billion in funding in 2001 to \$1.1 billion in 2002. **PortalPlayer** (Santa Clara, CA) was the sector's top investment, closing a \$42 million Series D round, bringing the total venture investment in the Company to \$80 million. **PortalPlayer** develops product platforms that enable consumer electronics providers to implement new types of music recording and playback systems.

## Major Metropolitan Areas

Nearly seventy percent (69.4%) of the dollars raised in 2002 was invested in companies headquartered in the top ten metropolitan areas. The Bay Area (San Francisco/San Jose) led the way with \$7.9 billion, followed by Boston with \$2.5 billion. Washington DC surpassed New York City as the third leading metropolitan area.

The most notable change to the top metropolitan area list in 2002 is the decline of cities based in Texas. Dallas and Austin, which placed sixth and seventh in 2001, were twelfth and fifteenth in 2002.

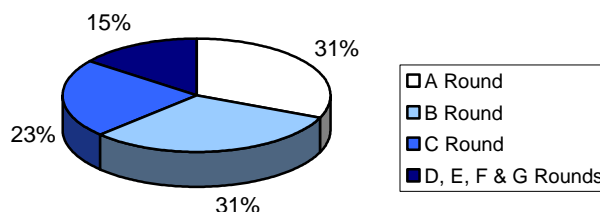
### Total U.S. Funding by Top Metropolitan Areas – 2002

	Dollars Invested	Pct. of Total	No. of Cos.	Pct. of Total	Average Deal Size
Bay Area (San Francisco/San Jose)	\$7,900,310,000	32.0%	670	28.3%	\$11,791,507
Boston	\$2,497,751,140	10.1%	239	10.1%	\$10,450,842
Washington DC	\$1,392,655,000	5.6%	131	5.5%	\$10,630,954
New York City <sup>1</sup>	\$1,275,440,000	5.2%	139	5.9%	\$9,175,827
San Diego	\$1,032,538,000	4.2%	87	3.7%	\$11,868,253
Los Angeles	\$655,925,000	2.7%	65	2.7%	\$10,091,154
Seattle	\$605,700,000	2.5%	78	3.3%	\$7,765,385
Atlanta	\$604,262,000	2.4%	65	2.7%	\$9,296,338
Chicago	\$599,568,000	2.4%	36	1.5%	\$16,654,667
Orange County, CA	\$555,950,000	2.3%	42	1.8%	\$13,236,905
<b>Top Metro Areas</b>	<b>\$17,120,099,140</b>	<b>69.4%</b>	<b>1552</b>	<b>65.5%</b>	<b>\$11,030,992</b>
Rest of U.S.	\$7,561,119,000	30.6%	816	34.5%	\$9,266,077
<b>Total U.S.</b>	<b>\$24,681,218,140</b>	<b>100.0%</b>	<b>2368</b>	<b>100.0%</b>	<b>\$10,422,812</b>

<sup>1</sup> Includes Connecticut-based and New Jersey-based companies in the Metro NYC area.

## Funding Rounds

As shown in the chart to the right, 31% of the companies that raised venture capital in 2002 were companies that raised their initial round of funding (including seed and Series A rounds). Thirty eight percent (38%) of the companies raised a Series C or later round.



## Top Investments

Eleven (11) companies received equity investments of \$80 million or more, four of which were in the Connectivity sector. Of the eight (8) companies that raised rounds of \$100 million or more, three (3) were energy companies that collectively raised over \$500 million.

Company	Sector	Investment
Latigo Petroleum (Tulsa, OK)	Other (Energy)	\$300.0 million
Ovation Pharmaceuticals (Deerfield, IL)	Healthcare	\$150.0 million
Caspian Networks (San Jose, CA)	Connectivity	\$120.0 million
Eclipse Aviation (Albuquerque, NM)	Other (Aerospace & Aircraft)	\$118.0 million
Bill Barrett Corp. (Denver, CO)	Other (Energy)	\$107.5 million
Pillar Data Systems (Milpitas, CA)	Connectivity	\$100.0 million
Insight Energy (Chicago, IL)	Other (Energy)	\$100.0 million
AAT Communications (Iselin, NJ)	Connectivity	\$100.0 million
Surgis (Nashville, TN)	Healthcare	\$83.5 million
USi (Annapolis, MD)	Business Software	\$81.3 million
Chiaro Networks (Richardson, TX)	Connectivity	\$80.0 million

## Investors

Over 2,200 investors provided venture capital to privately held U.S.-based companies in 2002. The following were the most prolific investors, each of which provided funding to 20 or more ventures.

- 3i
- Accel Partners
- Advanced Technology Ventures
- Alta Partners
- ARCH Venture Partners
- Atlas Ventures
- Austin Ventures
- Battery Ventures
- Bessemer Venture Partners
- Canaan Partners
- ComVentures
- Domain Associates
- Draper Fisher Jurvetson
- Intel Capital
- InterWest Partners
- J.P. Morgan Partners
- Lightspeed Venture Partners
- Mayfield
- Menlo Ventures
- Morgenthaler Ventures
- New Enterprise Associates
- Polaris Venture Partners
- Sequoia Capital
- Sevin Rosen Funds
- St. Paul Venture Capital
- The Sprout Group
- TL Ventures
- U.S. Venture Partners
- Venrock Associates
- Warburg Pincus

## Profiles of Funded Ventures

This Report is **1,034 pages** and contains profiles of **over 2,300 companies** that raised venture capital in 2002. Over **10,000 executives** are listed in this report. Profiles contain the following information:

- Company Name
- Website
- Description
- Address
- Telephone Number
- Fax Number
- Key Personnel
- E-mails (when available)
- Funding Amount
- Funding Round
- Investors

The following are samples of Company Profiles that appear in the Report:

AmberPoint	DiscoverX	Zone Labs
<p><b>Description</b></p> <p>AmberPoint offers comprehensive solutions for making Web services production-ready, business-ready and easily manageable. With its modular, architecture-independent design, AmberPoint simplifies the management and evolution of business solutions built on Web services.</p> <p><b>2002 Investment</b></p> <p>Funding Amount: \$13,600,000 Funding Round: B</p> <p><b>Investors</b></p> <p>Crosslink Capital, Norwest Venture Partners, Sutter Hill Ventures</p> <p><b>Key Personnel</b></p> <ul style="list-style-type: none"> <li>• John Hubinger, <i>CEO</i> <i>jhubinger@amberpoint.com</i></li> <li>• Paul Butterworth, <i>CTO</i> <i>pbutterworth@amberpoint.com</i></li> <li>• Greg Batti, <i>VP Eng</i> <i>gbatti@amberpoint.com</i></li> <li>• Ed Horst, <i>VP Mktg</i> <i>ehorst@amberpoint.com</i></li> <li>• Gordon Loudon, <i>VP Customer Experience</i></li> </ul> <p><b>Contact Information</b></p> <p>155 Grand Ave. Suite 404 Oakland, CA 94612 Tel: (510) 663-6300 Fax: (510) 663-6301 <i>www.amberpoint.com</i></p>	<p><b>Description</b></p> <p>DiscoverX is a product and technology based company that offers proprietary biological read-out technologies for broad usage in the pharmaceutical and life science industries. The Company develops and commercializes these technologies in the area of High Throughput Proteomics through innovative solutions that reduce drug development time by addressing the bottlenecks of drug discovery.</p> <p><b>2002 Investment</b></p> <p>Funding Amount: \$6,800,000 Funding Round: B</p> <p><b>Investors</b></p> <p>Invesco Private Capital, Alta Partners, eHealth Technology Fund, Morgan Stanley Venture Partners, Skyline Ventures</p> <p><b>Key Personnel</b></p> <ul style="list-style-type: none"> <li>• Pyare Khanna, <i>CEO</i> <i>pkhanna@discoverx.com</i></li> <li>• Richard Eglen, <i>EVP R&amp;D</i> <i>reglen@discoverx.com</i></li> <li>• Tony Lima, <i>COO</i> <i>tlima@discoverx.com</i></li> </ul> <p><b>Contact Information</b></p> <p>42501 Albrae St. Fremont, CA 94538 Tel: (510) 979-1415 Fax: (510) 979-1650 <i>www.discoverx.com</i></p>	<p><b>Description</b></p> <p>Zone Labs creates Internet security solutions. Zone Labs produces patented TrueVector technology, the software platform on which the Company builds its security solutions for consumers, small businesses, enterprises and service providers.</p> <p><b>2002 Investment</b></p> <p>Funding Amount: \$24,500,000 Funding Round: C</p> <p><b>Investors</b></p> <p>JK&amp;B Capital, BA Venture Partners, Capital Guardian Trust Company, EastWest VentureGroup, Oxford Bioscience Partners, Pacific Venture Group, Visa International</p> <p><b>Key Personnel</b></p> <ul style="list-style-type: none"> <li>• Gregor Freund, <i>CEO</i> <i>gfreund@ix.netcom.com</i></li> <li>• Irfan Salim, <i>President</i></li> <li>• Conrad Herrmann, <i>CTO</i></li> <li>• Patricia Cole, <i>CFO</i></li> <li>• Frederick Felman, <i>VP Mktg</i> <i>ffelman@zonelabs.com</i></li> <li>• Srinivasa Venkataraman, <i>VP R&amp;D</i></li> <li>• David Batista, <i>VP Sales</i></li> </ul> <p><b>Contact Information</b></p> <p>1060 Howard St. San Francisco, CA 94103 Tel: (415) 341-8200 Fax: (415) 341-8299 <i>www.zonelabs.com</i></p>

# Investor Profiles

This Report contains profiles of over 2,000 investors that provided funding to private, U.S.-based companies in 2002. These investors are sorted alphabetically by region.

Investor profiles contain the following information:

- Investor Name
- Website
- Address
- Telephone Number
- Fax Number
- 2002 Investments

The following are samples of Investor Profiles that appear in the Report:

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## 21 VC Partners

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[www.21st-century.com](http://www.21st-century.com)

### 2002 Investments

Nextance

### Palo Alto, CA

151 Lytton Ave.  
Palo Alto, CA 94301  
Tel: (650) 462-1221  
Fax: (650) 462-1227

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## 5AM Ventures

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[www.5amventures.com](http://www.5amventures.com)

### 2002 Investments

Alexza Molecular Delivery

### San Francisco, CA

750 Battery St.  
San Francisco, CA 94111  
Tel: (415) 676-3830  
Fax: (415) 837-0503

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## Accel Partners

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[www.accel.com](http://www.accel.com)

### 2002 Investments

Acopia Networks, Apexon, Atrica, Big Bear Networks, BrassRing, Ceon, Cogent Healthcare, comScore Networks, Coremetrics, Counterpane Internet Security, Entrisphere, Escalate, ForeScout Technologies, GoDigital Networks, iPIN, NBT Technology, netVmg, New Edge Networks, Omneon Video Networks, P-Cube, Rapt, Topspin Communications, Trapeze Networks, Yodlee

### Palo Alto, CA

428 University Ave.  
Palo Alto, CA 94301  
Tel: (650) 614-4800  
Fax: (650) 614-4880

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## Access Venture Partners

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[www.accessventurepartners.com](http://www.accessventurepartners.com)

### 2002 Investments

BroadCloud Communications

### San Francisco, CA

319 Laidley  
San Francisco, CA 94131  
Tel: (415) 586-0132  
Fax: (415) 392-6310

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## Acer Technology Ventures

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[www.acertechventures.com](http://www.acertechventures.com)

### 2002 Investments

July Systems, Monolithic Power Systems, PointRed Technologies, Reflectivity

### Santa Clara, CA

5201 Great America Pkwy.  
Suite 270  
Santa Clara, CA 95054  
Tel: (408) 894-7900  
Fax: (408) 922-2933

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## Alliance Ventures

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[www.alliancevm.com](http://www.alliancevm.com)

### 2002 Investments

Aperto Networks, Athena Semiconductors, Bay Microsystems, Cavium Networks, InterSAN

### Santa Clara, CA

2575 Augustine Dr.  
Santa Clara, CA 95054  
Tel: (408) 855-4900  
Fax: (408) 855-4999

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