

Silicon Valley Venture Capitalist Confidence Index™

(Bloomberg ticker symbol: USFSVVICI)

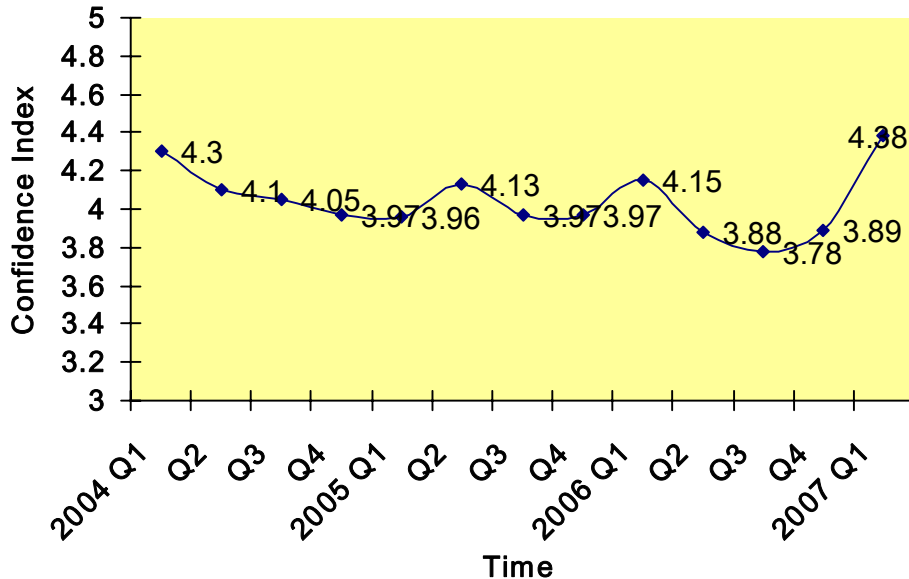
First Quarter – 2007
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The quarterly *Silicon Valley Venture Capitalist Confidence Index* (Bloomberg ticker symbol: *USFSVVICI*) is based on a survey of San Francisco Bay Area/Silicon Valley venture capitalists. The Index measures and reports the opinions of professional venture capitalists in their estimation of the high-growth venture entrepreneurial environment in the San Francisco Bay Area over the next 6 - 18 months. In publishing a recurring confidence index of professional venture capital investors, we intend to provide an on-going leading indicator of investment in new high-growth businesses in the San Francisco Bay Area. We expect that this forward looking indicator of Bay Area new venture investment and high growth entrepreneurial activity will also act as a fair proxy for new venture investment across the United States, as the San Francisco Bay Area is the largest source of venture capital in the nation.

The Silicon Valley Venture Capitalist Confidence Index for the first quarter of 2007, based on a March 2007 survey of 21 San Francisco Bay Area venture capitalists, came in at 4.38 on a 5 point scale (with 5 indicating high confidence and 1 indicating low confidence), and indicates a significant increase in venture capitalists' confidence over the last several quarters, to its highest reading since this Index was originated 3 years ago. Please see Table 1 for trend data.

Table 1
Trend line of Venture Capitalists' Confidence over the last 13 quarters



This reading indicates a shift toward broad confidence in 2007 from tempered optimism through most of 2006 among a growing number of Silicon Valley Venture Capitalists about the near term high-growth entrepreneurial environment. Nearly all of the responding venture capitalists in this survey indicated a 4 or 5 out of a possible 5 on the confidence scale. This near unanimous agreement on the strength of the high-growth venture environment is a first occurrence for the 3 years this survey has been offered. The respondents pointed to better exit alternatives, new innovation and business models, and sector strength in alternative energies among other positive indicators. We review and discuss many of the responding venture capitalists' insights in the following. Further, all of the Index respondents' names and firms are listed below, save those who wished to remain anonymous.

An overall upbeat assessment for venture backed firms was expressed. Jeb Miller of ComVentures observed the “breadth of market opportunities for innovative mobile and enterprise start-ups combined with an improving exit climate and the lack of innovation from incumbent vendors.” Debra Guerin-Beresini of International Venture Fund contended that “the overall entrepreneurial environment is energized and growing. Venture funds are raising more money and there are interesting exit alternatives.” An anonymous contributor pointed out “increased activity in public markets and better business fundamentals across most industries”, for his high confidence. Joe Mandato of De Novo Ventures justified his high confidence based on the “visibility and volume of deal flow and volume of financing available”. Similarly, Matthew Pedley of Minah Ventures stated, “there are high levels of activity across every stage of investment”.

Exit alternatives were emphasized. Dave Epstein of Crosslink Capital emphasized strong liquidity markets with IPO openings, public markets heading up, and lots of cash, but with reasonable time to conduct due diligence.

Rapid innovation and better business models were noted. Ron Conway of Angel Investors noted that, “Innovation is at an all time high in Silicon Valley. Monetization on the Web is possible now with the ad model”. Similarly, Steve Carnevale of Point Cypress Ventures observed that real uses of Web 2.0 are just now emerging. And Steve Sullivan of Skyline Ventures confirmed that he continues to see projects that meet his criteria for funding – namely – new markets, obvious differentiation, and strong entrepreneurs.

New opportunities with a positive environmental bent were observed. For example, Claas Heise of Innovature Capital Partners indicated that “clean-tech and clean energy start-ups are providing a new wave of innovation”.

Positive fundamental structural changes were also emphasized. Bob Ackerman of Allegis Capital offered that, “The global economy is undergoing a series of fundamental structural changes that are driven by or enabled by technology. For investors, the opportunity to participate in the value being created by this process is compelling and almost unprecedented.”

Optimism was not universal however. Dag Syrrist of Vision Capital pointed to ‘over funding, moderate economic growth and limited exits, for his low confidence

In sum, the sentiment among our responding venture capitalists was strongly positive and marked the highest absolute reading for the VC confidence index in 3 years. Many of the responding venture capitalists attribute better exit alternatives, plentiful funding, and strong innovation and business models for this confidence. Concerns from recent previous quarters about bubble like valuations and limited exit alternatives have greatly diminished. However, the positive venture environment has, in fact, attracted significant additional financing. “In the first quarter of this year, 56 funds totaling nearly \$5 billion were

established.”¹ This rush of new available financing could, in time, resurface concerns of excessive valuations. We expect, though, that a continuing favorable macro environment combined with strategic advising of seasoned entrepreneurs will provide for a very *healthy Bay Area entrepreneurial environment for the balance of 2007*.

Table 2
Participating Venture Capitalists in the 2007 1st Quarter Confidence Index Survey

Participant	Company
Bob Ackerman	Allegis Capital
Bruce MacNaughton	Crosslink Capital
Bill Baumel	RWI Ventures
Claas Heise	Innovature Capital Partners
Dag Syrrist	Vision Capital
David Epstein	Crosslink Capital
Debra Guerin-Beresini	International Venture Fund
Deepak Kamra	Canaan Partners
Jim Swallow	Monterey Investors Roundtable
Jeb Miller	ComVentures
Joe Mandato	De Novo Ventures
Kirk Westbrook	International Venture Fund
Matthew Pedley	Minah Ventures
Prashant Shah	Hummer Winblad Venture Partners
Richard Yen	Blueprint Ventures
Ron Conway	Angel Investors
Shomit Ghose	Onset Ventures
Steve Carnevale	Point Cypress Ventures
Steve Sullivan	Skyline Ventures
Tom Fountain	Mayfield Fund
Zack Scott	Burrill and Company

Please see the reports for the previous quarters at: www.EntrepreneurshipProgram.org under the publications tab. Venture capitalists who wish to participate in next quarter’s Index survey are asked to contact Mark Cannice at Cannice@usfca.edu.

Mark V. Cannice, Ph.D.* is an Associate Professor of Entrepreneurship and the Executive Director and Founder of the University of San Francisco Entrepreneurship Program (ranked among top 25 graduate entrepreneurship programs in the US).

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¹ Wall Street Journal, June 25, 2007, p. R6, Elizabeth Holmes.