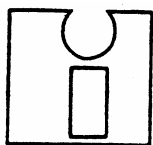


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INTERNATIONAL FEDERATION OF  
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**WIPO-IFIA INTERNATIONAL SYMPOSIUM ON  
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the World Intellectual Property Organization (WIPO)  
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PARTNERING WITH VENTURE CAPITALISTS TO ACHIEVE  
GROWTH AND DEVELOPMENT

OVERVIEW AND HISTORICAL PERSPECTIVE ON U.S.  
VENTURE CAPITAL INVESTING

*Document prepared by Mr. Gene Scott, President and Chief Executive Officer (CEO),  
Invention Trader Associates International, Newport Beach, California (USA)*

1. Venture capitalists invest at different stages of business development. These don't start-up stage is the initial stage, where the company has a concept or product under development, but is probably not fully operational, having usually been in existence for less than 18 months. Then in the early stage the company has a product or service under test or in pilot production, and in some cases, the product may be commercially available and may or may not be generating revenues; usually this company has been in business for less than three years. In the expansion stage, the product or service is in production and commercially available; the company demonstrates significant revenue growth, but may or may not be showing a profit. Such a company has usually been in business for more than three years. In a later stage, the product or service is widely available; the company is generating ongoing revenue, probably positive cash flow; the company is more likely to be, but is not necessarily, profitable. This stage includes spin-outs of operating divisions of existing private companies and established private companies.

2. Venture capital financing comes from the investment activity of professional venture capital firms, small business investment companies (SBICs), the venture arms of corporations, institutions, investment banks and similar entities whose primary activity is financial investing. Other participants include angels, corporations and governments. Transactions include cash investments by such entities, either directly or by participation in various forms of private placement. Recipient companies are generally private, may be non-profit and may have been newly created or spun out of existing companies.

3. Venture capital activities generally exclude debt financing, buyouts, recapitalizations, secondary purchases, IPOs, investments in public companies such as PIPES (private investments in public entities), investments for which the proceeds are primarily intended for acquisitions such as roll-ups, changes of ownership and other forms of private equity that do not involve cash such as services-in-kind and venture leasing.

4. Angel, incubator and similar investments are considered pre-venture financing if the company has received no prior qualifying venture capital investment, and are not generally considered venture financing unless they meet the cash-for-equity criterion.

5. Direct investment by corporations is not considered venture capital unless:

- (a) the investment is clearly demonstrated to be primarily a financial investment rather than outsourced R&D or market development;
- (b) it is a co-investment in an otherwise qualifying ground; or
- (c) it follows a qualifying venture round in a company and meets the cash-for-equity criterion.

Therefore, only professional independent venture capital firms, institutional venture capital groups and recognized corporate venture capital groups are considered part of the venture capital industry.

6. Venture capital investor traditionally focus on one or more of the following industries:

- (a) Biotechnology;
- (b) Business Products and Services;

- (c) Computers and Peripherals;
- (d) Consumer Products and Services;
- (e) Electronics/Instrumentation;
- (f) Financial Services;
- (g) Healthcare Services;
- (h) Industrial/Energy;
- (i) IT Services;
- (j) Media and Entertainment;
- (k) Medical Devices and Equipment;
- (l) Retailing/Distribution;
- (m) Semiconductors;
- (n) Software;
- (o) Telecommunications.

7. According to a survey by the well-known collaboration between PricewaterhouseCoopers, Venture Economics and the National Venture Capital Association, a record \$37 billion of venture capital, three times the previous year's amount, poured into start-up companies in 1999, the majority of it based on new inventions. Venture investing in 2000 exceeded \$68 billion. Venture capital continued its downward trend in the third quarter of 2002 with total investments of \$4.5 billion in entrepreneurial companies, a decrease of 26% compared with the previous quarter. Venture capitalists invested \$6.0 billion in the second quarter of 2002 and \$6.4 billion in the first quarter of 2002. A total of 647 companies received funding compared with 838 in the previous quarter. The last time quarterly venture capital investments were below \$5.0 billion was in the first quarter of 1998, when it fell to \$4.2 billion.

8. The dramatic slowing in investment over the last 18 months is due to continued volatility and poor performance in the public markets as well as the decline in corporate technology spending. Venture capitalists have become increasingly selective as they are faced with longer investment cycles, declines in company valuations, and limited exit opportunities.

9. Mr. Mark Heesen, President of the National Venture Capital Association (NVCA), recently stated his opinion that venture capitalists had concerns regarding the front end and back end of the deals that they were evaluating. On the front end, they were concerned that young companies were going to have difficulty gaining traction in terms of customers and revenues owing to the decline in technology spending. On the back end, they were concerned about sobering valuations and a lack of liquidity. Both sets of concerns were making the venture community increasingly cautious.

10. A total of 159 companies received venture capital for the first time in the third quarter of 2002, down from 214 companies in the second. Software accounted for the most dollars, with 46 companies receiving \$187 million, or 18% of all first-time financings. Biotechnology had 18 companies receiving \$137 million. The only other categories with ten or more first-time financings were Medical Devices, Telecommunications and Industrial.

11. Expansion-stage companies continue to receive the most venture capital, namely 56% of all capital invested and 55% of the number of deals in the third quarter. At the same time investors continued to fund earlier-stage companies. In the third quarter, companies in the "formative" stages of development (early stage and startup on seed) received similar levels as in the previous one, with 23% of the dollars invested and 30% of the number of deals. This stability in earlier-stage investing indicates that venture capital firms continue to take longer-term views.

12. Later-stage investing became more dominant in the third quarter, representing 20% of the dollars invested and 15% of the number of deals, compared with 13% of the dollars invested and 9% of the number of deals in the second. This increase in later-stage deals demonstrates that venture capitalists have remained committed to their existing portfolio companies and continue to finance their development during this difficult economic period.

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