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Despite Billions in Federal Funding, Study Shows NY Far Behind in Fostering New High-Tech Businesses from University Research

ROCHESTER, NY, Tuesday, June 23, 2009– With billions in federal grant money to fund research at its universities and a reputation for being the financial capital of the world, New York would seem to have what it takes to build an innovation-based economy, save one critical factor: New York venture capitalists prefer investing in out-of-state companies, according to a study conducted by Excell Partners, a seed stage venture capital fund with ties to the University of Rochester.

The study compiled data on federally funded research versus venture capital investment for six of the leading states in the country. The results show NY scores well in the amount of federally funded research awarded to its universities, but falls short of other states in providing the seed capital necessary to turn emerging startups into revenue generating companies.

In 2006, NY universities and academic research centers drew \$4.5 billion in primarily federal R & D spending, second only to California. In commitments to state-supported venture funds, however, New York ranked 25th, whereas California, Pennsylvania, Texas and Maryland all ranked in the top ten.

The presence of seed capital enabled these states to create from university research the revenue generating companies which attract venture capital. While NY's startup companies draw a mere 4 percent of the nation's total venture capital, California receives 48 percent.

“It makes sense that states which make seed capital available will attract millions more in venture capital,” said Judy Albers, COO of Excell Partners. “Venture capitalists today tend to invest in companies that are already producing revenue. And seed money gives emerging companies with potential a much better chance to reach that point.”

In New York, 91 percent of venture capital deployed by NY city firms is invested outside the state – primarily in California. Only 9 percent is invested in NYS start-ups. In contrast, California venture capitalists invest 72 percent in state. Texas invests 47 percent of its venture capital in state and Massachusetts 37 percent.

Studies have shown that seed funds can produce significant economic impact. Pennsylvania has operated the Ben Franklin Technology Partners for 25 years which provides \$20M annually in seed capital. According to an independent study commissioned in 2008, the fund's 4-year investment between 2002 and 2006 garnered

more than \$517 million in additional tax revenue, generated 10,165 job years and boosted the Pennsylvania economy by \$9.3 billion.

“In New York State we have world class research capabilities,” said Excell CEO Theresa Mazzullo. “Compared to other states, New York has an enormous untapped potential for creating high tech start-ups.”

Because NYS start-ups are not attracting their proportionate share of venture capital either from in-state or out-of-state firms, New York ranks eighth in the nation, trailing Massachusetts, Texas, Pennsylvania, Georgia, and Virginia among others for both employment and revenue generated by venture capital backed companies.

Data from the study was derived primarily from PWCmoneytree.com, the National Association for Seed and Venture Funds, the National Science Foundation and Global Insight.

Seed capital is critical to the genesis of new businesses because it fuels the transition from university spin-off to the so-called early stage when a company begins to generate revenue and attract venture capitalists. Crossing that threshold, known as the “Valley of Death,” is critical to the survival of emerging companies.

Recently incorporated, seed-stage companies typically do not generate revenue. Most are occupied with tasks such as filing patents, writing business plans, building management teams, completing prototypes or optimizing compounds for drug discovery. States such as Massachusetts, Pennsylvania, Texas, and Maryland have developed state-supported seed funds that help companies bridge the gap from seed to early stage, when venture capitalist typically enter the market.

Excell Partners Inc. manages a venture capital fund which provides pre-seed and seed stage financing to high-tech start-up companies. Excell’s mission is to bridge the seed stage funding gap which exists in the Upstate New York region and prepare companies for their next major round of financing. Excell focuses on technology companies emerging from regional universities and research centers.

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