

Entrepreneurial Confidence Index (ECI)

First Quarter 2004
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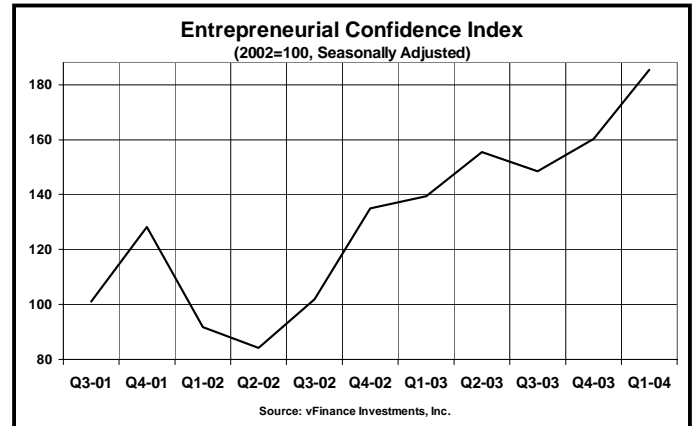
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Executive Summary

Entrepreneurial confidence surged to a record high level in the first quarter of 2004 indicating a strong and growing interest in starting new businesses, particularly in the real estate sector. The first quarter ECI reached 185.5 (2002=100), up 15.9% above the level of the fourth quarter of 2003 and 33.0% above the first quarter of 2003.

The strong increase in the ECI over the past year is consistent with the powerful economic growth the US has experienced since mid-2003. Unfortunately, recent jobs data continues to indicate that the interest in starting new businesses may not be accompanied by a significant increase in actual business formations or job creation. Though the recession ended in November 2001, by mid-2003, the number of establishments opening and adding new employees had fallen for three of the previous four quarters. During that same period, the ECI increased 84%. Our research indicates the gap is related to the post-bubble decline in funding for new ventures as a weak IPO market and a precipitous drop in the NASDAQ forced investors either out of the market or to hold on to their existing portfolios much longer than anticipated. We expect this condition to change in 2004 as improved equity markets make IPOs, M&A's and other exit avenues more available to investors.



In addition, the increase in entrepreneurial confidence was not matched by a similar increase in funding on the part of venture capital funds. According to the National Venture Capital Association, the number of new deals funded by venture capital companies fell 9.0% to 618 in the first quarter, the lowest number since the third quarter of 1996. **There is still a problem with liquidity in the venture community**, which limits the ability to fund new ventures until existing portfolio companies can be divested. Conditions are improving, but slowly. The total number of IPOs in the first quarter was 38, up from only 3 a year earlier, but down from 48 in the fourth quarter.

Other important findings from the first quarter survey include:

- The **Real Estate** sector showed an unprecedented surge in interest in the first quarter, climbing to the highest reading ever recorded for any major industry sector. Since Q3 2003, the **Real Estate** sector has climbed from 14th (out of 28) to 5th to first. Low interest rates and rising home prices have stimulated interest in development and investment in properties. However, with US interest rates rising, the housing industry is at or near a peak today.
- The **Computer Software and Services** sector saw a significant rebound in interest during the quarter with the consulting and applications software sub-sectors showing strong growth in interest.
- There has been a steady decline in interest in the **Retail** sector over the past several quarters.

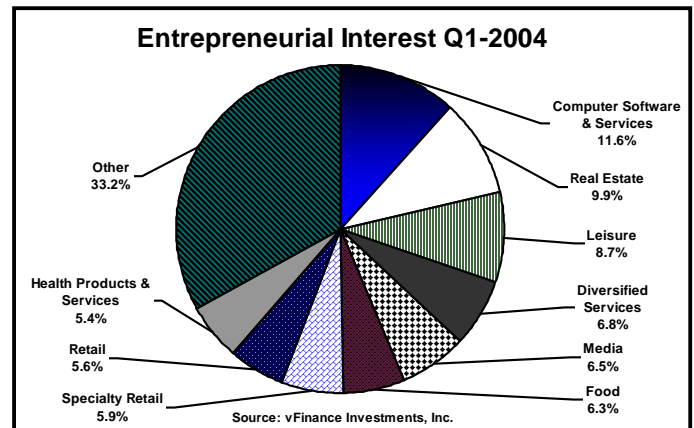
Following is a summary of the sectors and sub-sectors that experienced the largest changes in growth and interest.

Q1/2004	Rising	Declining
Sectors	<ul style="list-style-type: none"> • Real Estate • Computer Software & Services • Diversified Services 	<ul style="list-style-type: none"> • Chemicals • Energy • Media
Sub-Sectors	<ul style="list-style-type: none"> • Sporting Activities • Alternative Energy • Real Estate Development 	<ul style="list-style-type: none"> • Restaurants • Management Consulting Services • Trucking

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Response Shares

The major industry sector receiving the largest number of responses continued to be in the **Computer Software and Services** sector, which garnered 11.6% of all responses during the 1Q 2004, up from 11.2% in the fourth quarter of 2003. Within this sector, the sub-sectors generating the most interest were **Internet and Intranet Software and Services** and **Information Technology Consulting Services**. Second was **Real Estate**, which accounted for 9.9% of all responses, compared with 8.9% in the fourth quarter. Within Real Estate, the sub-sectors showing the greatest interest were: **Real Estate Development** and **Property Investment and Management**. **Leisure** was third with 8.7% of all responses led by **Sporting Activities**. The **Retail** sector still generates a high level of interest, even though it has declined in recent quarters. Taken together, **Retail** and **Specialty Retail** accounted for 11.5% of all responses, compared with 12.2% in the fourth quarter and 12.4% in the second quarter of 2003. The sectors with the lowest entrepreneur interest continue to be **Conglomerates**, **Chemicals** and **Metals & Mining**. Together, these three sectors accounted for only 1.3% of all responses.

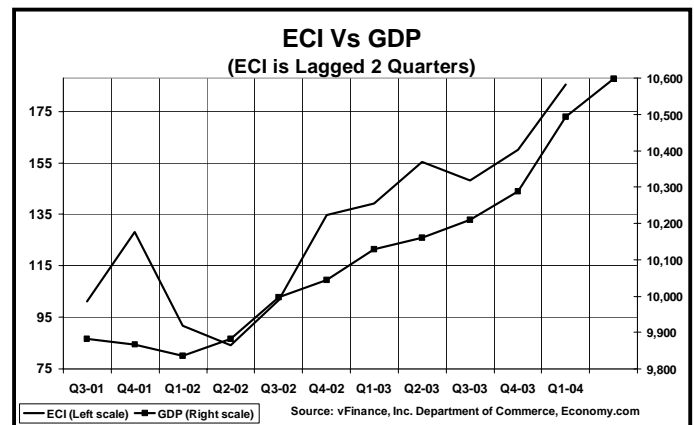


Specific industry sub-sectors with the greatest interest were **Miscellaneous Retail (3.27%)**, **Property Investment & Management (2.79%)**, **Real Estate Development (2.57%)**, **Internet & Intranet Software & Services (2.56%)**, and **Miscellaneous Entertainment (2.23%)**. These five sub-sectors accounted for 13.4% of all interest.

Index Performance

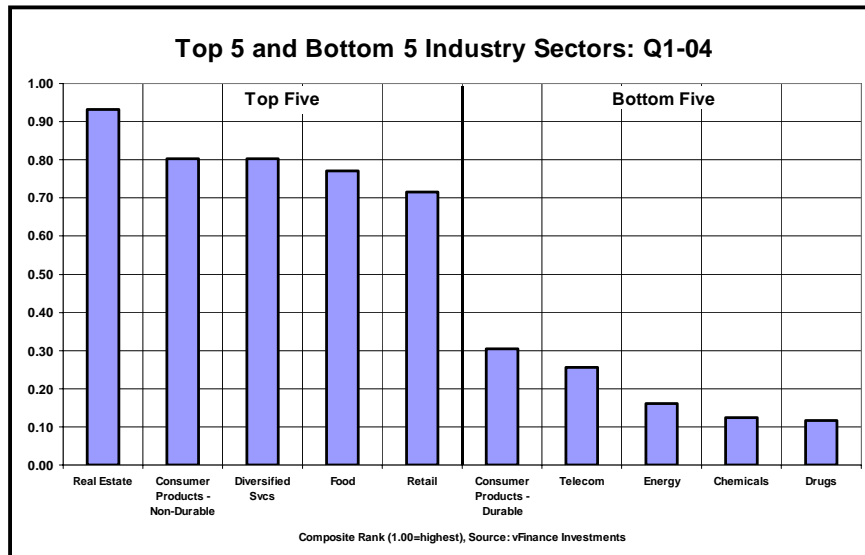
With this report we introduce a seasonally adjusted index reflecting the changes in seasonal patterns in the number of visitors to the vFinance website. This seasonally adjusted index does not change the basic trend in the ECI since its inception. The most important trend in the ECI has been the strong upsurge that began in the third quarter of 2002. At that point, the number of entrepreneurs seeking financial and/or other support for their ventures began to rise strongly, and it hasn't looked back.

The first quarter surge in the ECI is a reflection of the strength of the economy in the second half of 2003. Over the two and a half years vFinance has been tracking the attitudes of entrepreneurs, it has become increasingly clear that it takes about six months for conditions in the economy to have an impact on entrepreneurial attitudes. This time lag suggests that entrepreneurs need to have some level of comfort in a sustained increase in economic activity before they are ready to take the risk of starting a new business and investigate the possibility of obtaining financing for the business opportunities they perceive. This 6-month lag tells us that entrepreneurial confidence will remain high through most of 2004. Yet, there is little evidence to suggest that the strong increase in the desire to start a business has been matched by actual business starts. Through mid-2003, the number of establishments opening and adding new employees had fallen for three of the past four quarters. During that same period, the ECI increased 84%.



Major Industry Sectors

By far the strongest major industry sector in the first quarter was **Real Estate**, which saw large increases in interest compared to a year ago and to the fourth quarter of 2003. The total score for the **Real Estate** sector of 0.933-based on our ranking system, which combines both the level of interest and the growth in that interest was the highest ever recorded by any major industry sector (the highest possible reading is 1.00). Other highly ranked major industry sectors were **Non-durable Consumer Goods** (0.804), **Diversified Services** (0.804), **Food** (0.772) and **Retail** (0.714). Other sectors that saw strong growth and high levels of interest included: **Financial Services** (0.607), **Leisure** (0.602), and **Computer Software and Services** (0.589).



The major trend in entrepreneurial interest in the first quarter was a strong increase in interest in consumer-related goods and services reflecting the continuing strong growth in consumer spending in the general economy, and the boom in the real estate sector. All of the highest rated major industry sectors are consumer related.

- ✓ In the **Real Estate** sector, the sustained low level of interest rates combined with the boom in the residential real estate market has been a catalyst creating a surge in interest. **Real Estate** was far and away the biggest gainer in the first quarter with three of its sub-sectors in the top 10 of the 289 sub-sectors monitored by vFinance. In terms of the number of responses, **Real Estate** was the second-highest ranking major industry sector, however, the strong increase in interest in **Real Estate** caused the sector's ranking to rise to the top. The number of entrepreneurs expressing interest in this sector jumped 47% for the quarter with particularly strong gains in interest in **Real Estate Development, Property Investment and Management** and **Residential Construction**.
- ✓ The second highest rated sector was **Consumer Non-Durable Goods**. This sector was led by the **Miscellaneous** category, which saw a sharp 50.9% increase in interest during the quarter. Other sub-sectors showing healthy increases in interest included **Apparel** and **Personal Care Products**.
- ✓ The most important contributors to the strength of the **Diversified Services** were consumer related. The **Consumer Services** and **Personal Services** sub-sectors were among the strongest in terms of both the number of responses and the increase in interest. In addition, **Building Maintenance & Related Services**, a real estate related sub-sector also showed a sharp increase in interest. On the flip side, the sub-sectors that were among the weakest in the **Diversified Services** sector included several that provide services to business, including **Management Consulting** and **Market and Business Research Services**.

- ✓ Within the **Food** sector, broad categories were the biggest gainers led by **Other Diversified Foods** and **Miscellaneous Foods**. Food has been one of the highest ranked major sectors for the past year as entrepreneurs seek to meet the consumer's seemingly insatiable desire for new food products. We believe the strength in the first quarter was a result of the rising interest in "Atkins friendly" low carbohydrate products.
- ✓ In the **Retail** sector, the strength was largely in stores that provide non-durable goods to consumers. There was strong interest in **Apparel** stores, **Health and Beauty Products** stores, and **Shoe and Accessory** stores. **Retail** was the fifth ranked sector in the first quarter, its lowest ranking since the third quarter of 2002. This sector's ranking has declined steadily, but moderately since the beginning of 2003.

The lowest ranked major industry sectors were either highly regulated, like **Drugs**, or capital intensive, like **Chemicals** and **Energy**. The **Telecommunications** sector, one of the biggest industries in the 1990s boom saw its fortunes among entrepreneurs continue to decline along with its earnings. In the first quarter of 2002, **Telecommunications** accounted for 5.21% of all responses. By the first quarter of 2004 that interest level had fallen to 3.0% of a much larger total number of responses. The one surprise in the lowest ranking sectors was **Consumer Durable Goods** where interest has waned despite an economic environment that should be supportive. Housing activity, one of the main drivers of demand for consumer durable goods is at or near record levels, yet entrepreneurs are not interested in starting businesses in this sector.

There tends to be a lot of movement in rankings from one quarter to the next. For example, only three major sectors have been among the top 10 in each of the past three quarters: **Retail**, **Food** and **Nondurable Consumer Goods**. Other major sectors have seen an increase or decline in their ratings based on changes in the level of interest.

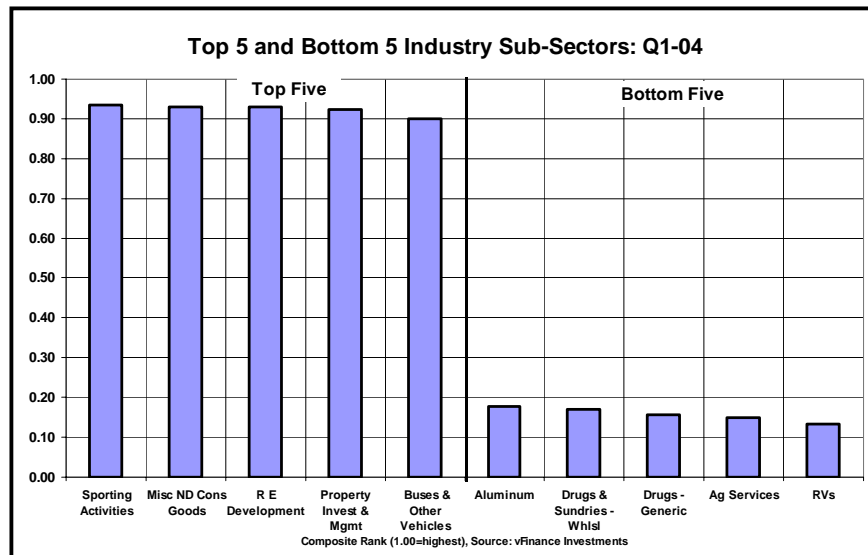
The following table shows the top ten major industry sectors for each of the past three quarters.

Major Industry Sector	Q3-03	Major Industry Sector	Q4-03	Major Industry Sector	Q1-04
Diversified Services	0.9196	Automotive & Transport Equipment	0.7054	Real Estate	0.9330
Health Products & Services	0.7411	Materials & Construction	0.6920	Consumer Products - Non-Durable	0.8036
Retail	0.7232	Consumer Products – Non-Durables	0.6696	Diversified Services	0.8036
Consumer Products - Non-Durables	0.7054	Retail	0.6696	Food	0.7723
Manufacturing	0.6786	Real Estate	0.6607	Retail	0.7143
Transportation	0.6696	Financial Services	0.6429	Materials & Construction	0.7098
Food	0.6161	Specialty Retail	0.6250	Financial Services	0.6071
Leisure	0.6161	Food	0.6116	Leisure	0.6027
Specialty Retail	0.5804	Transportation	0.5804	Computer Software & Services	0.5893
Energy	0.5536	Banking	0.5491	Health Products & Services	0.5848

- ✓ Over the past six months **Real Estate** has become the top ranked sector reflecting the strength of the housing industry, where sales of new homes reached an all-time high in the first quarter and sales of existing homes were the third highest on record (the top two quarters were the final two quarters of 2003).
- ✓ Other sectors on the rise include: **Financial Services** where the main catalyst has been growing interest in mortgage banking and **Leisure** which saw a significant increase in interest in **Sporting Activities**. **Retail** has slipped steadily but modestly since being the top rated sector in the second quarter of 2003. The retail sector still accounts for 5.5% of all responses, roughly the same as it has been for the past year, but the sector's ranking based on number of responses and growth has declined slightly due to a slowdown in growth over the past year.
- ✓ Sectors on the decline include **Chemicals**, **Transportation** and **Drugs**.

Industry Sub-Sectors

Of the 289 industry sub-sectors tracked by vFinance, 207 saw the number of entrepreneurs increase and only 68 saw declining interest in the first quarter compared to the fourth quarter. This marked a significant turnaround from the preceding two quarters when the number of sub-sectors experiencing declining interest far outnumbered those experiencing higher levels of interest. The number of sub-sectors with higher interest in the first quarter of 2004 than a year earlier was 136 roughly equivalent to the 134 sub-sectors that saw a decline in interest compared to a year earlier.



- ✓ Two of the five highest rated sub-sectors were in the **Real Estate** sector: **Real Estate Development** and **Property Investment and Management**. These two sub-sectors were also the second and third highest ranked in terms of the total number of responses. Entrepreneurs are seeking to participate in one of the hottest sectors of the economy today as new home sales reached a record level in the first quarter of 2004 and housing starts in the last two quarters were at the highest level in 25 years.
- ✓ The **Sporting Activities** sub-sector saw a huge surge in interest during the quarter. The number of entrepreneurs expressing interest in this sub-sector showed the second highest growth of any sub-sector and that increase coupled with the large number of entrepreneurs interested in this sub-sector made it the top ranked sub-sector up from its 196 ranking in the fourth quarter of 2003.
- ✓ The **Miscellaneous Consumer Nondurable Goods** sub-sector has been gaining ground steadily over the past year. In the first quarter of 2003, this sub-sector was ranked number 206 out of 208, by the first quarter of 2004 it was number 2.
- ✓ One of the sub-sectors that is not in our top five, but showed a gain in interest was **Alternative Energy**, which is categorized under **Utilities**. The ranking for this sub-sector jumped from 280 (out of 289) in the fourth quarter to 19 in the first quarter, as the number of entrepreneurs expressing interest nearly tripled. The sector still has a relatively small number of respondents (it is ranked number 80 out of 289) but it grew sharply. This increase reflects both the sharp increase in energy prices and the increasing support within the Administration for alternative energy vehicles, such as hydrogen and fuel cell powered cars.

The low ranked sub-sectors were **Recreational Vehicles**, **Agricultural Services**, and **Generic Drugs**. None of these sub-sectors recorded more than eight inquiries in the quarter and the number of entrepreneurs expressing interest declined sharply from the preceding quarter in each case.

Entrepreneurial Confidence Index

The movement in rankings from one quarter to the next is shown in the following table. Because of the large number of sub sectors, there tends to be significant movement between quarters.

Major Sector	Sub-Sector	Q3-03	Major Sector	Sub-Sector	Q4-03	Sector	Sub-Sector	Q1-04
Diversified Services	Management Consulting	0.9459	Real Estate	Miscellaneous Real Estate Services	0.9650	Leisure	Sporting Activities	0.9338
Diversified Services	Miscellaneous Business Services	0.9230	Transportation	Trucking	0.9299	Consumer Products - Non-Durables	Miscellaneous non-durable Consumer Goods	0.9299
Computer Software & Services	Professional & Financial Software	0.9170	Automotive & Transport Equipment	Auto Parts	0.9234	Real Estate	Real Estate Development	0.9299
Food	Soft Drinks	0.9105	Materials & Construction	Miscellaneous Building Materials	0.9079	Real Estate	Property Investment & Management	0.9226
Leisure	Adult Entertainment	0.9074	Consumer Products - Durables	Housewares & Accessories	0.9074	Automotive & Transport Equipment	Buses & Other Vehicles	0.9001
Consumer Products - Non-Durables	Misc Non Durable Goods	0.9053	Leisure	Restaurants	0.8841	Diversified Services	Personal Services	0.8936
Financial Services	Mortgage Banking	0.8975	Aerospace & Defense	Aerospace/Defense - Maintenance & Service	0.8819	Food	Diversified Foods - Other	0.8932
Diversified Services	Outsourcing	0.8901	Leisure	Tour Operators & Other Travel Services	0.8776	Diversified Services	Consumer Services	0.8919
Computer Software & Services	Diversified Software	0.8845	Specialty Retail	Sporting Goods Retailing	0.8694	Specialty Retail	Toy & Hobby Retailing & Wholesale	0.8867
Health Products & Services	Medical Appliances	0.8772	Automotive & Transport Equipment	Motorcycles & Other Small-Engine Vehicles	0.8534	Real Estate	Residential Construction	0.8737

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