

CONNECT Innovation Report

A quarterly evaluation of our innovation economy

New Start-ups • Angel/VC Investment • New Patents • Research Grants • Research Employment • Business Survival

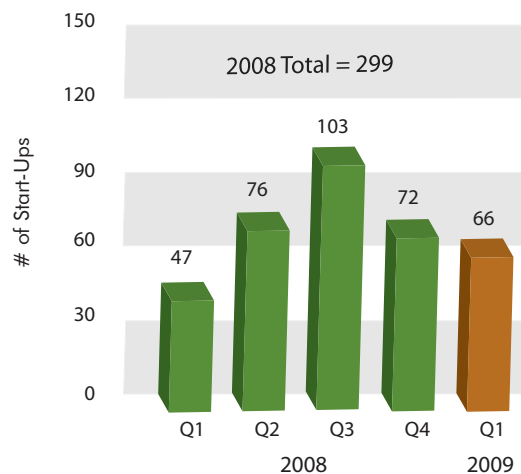
Rate of Start-ups and Grants Holds Steady Despite Overall Economy

The CONNECT Innovation Report (CIR) is the first to provide an economic indicator of the economic strength and impact of the innovation economy in San Diego. Published each quarter by CONNECT, San Diego's technology and life sciences accelerator, the Report includes:

- New innovation start-ups
- Angel and venture capital investment
- New patent applications and patents granted
- Research grants
- Research employment, and
- Business survival rates.

Collection and analysis of the data is done in collaboration with the National University System Institute for Policy Research, the University of California, San Diego Extension, PricewaterhouseCoopers and the law firm Procopio, Cory, Hargreaves & Savitch LLP. Data is also gathered on new innovation business creation in key regions across the state for comparative purposes.

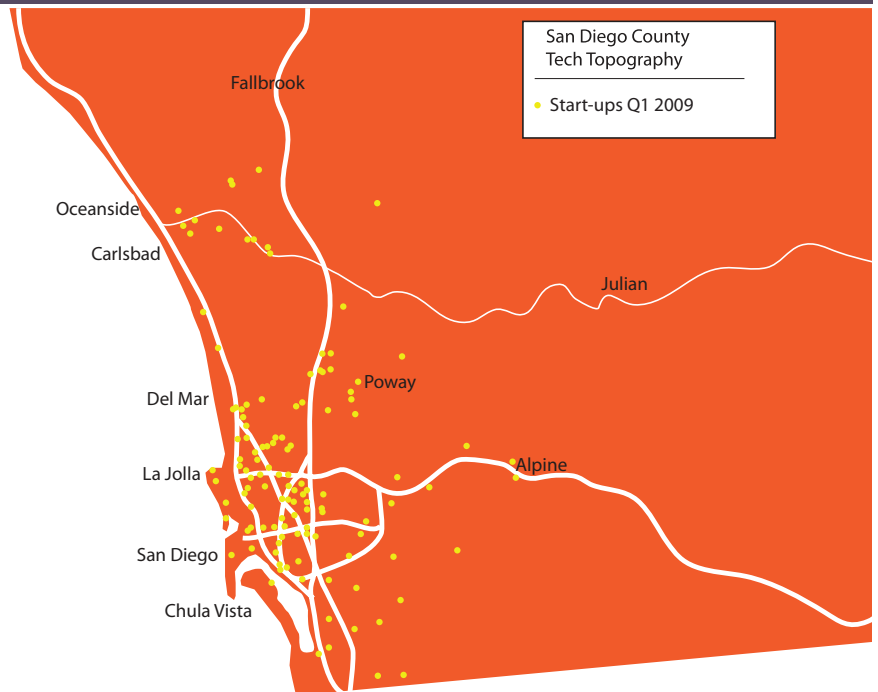
San Diego Innovation Start-ups by Quarter



Start-up Creation Increased Versus Same Period of 2008

The latest analysis of start-up technology businesses in San Diego shows 66 companies formed during the first quarter of 2009. This was only slightly less than the 72 started the previous 4th quarter of 2008, and surprisingly 43 percent more than one year ago, during the same quarter of 2008.

Software led in the number of new technology companies formed in San Diego during the latest quarter. These endeavors are less expensive to get off the ground as they depend primarily upon human capital and expertise. Pharmaceutical, biotech and medical devices



“Slowdowns can actually spur innovation and business creation as talented workers, unable to find other employment, start their own businesses. A recession can also be a good time to launch innovations because a less crowded marketplace makes it easier to create awareness of a new business.”

- Kelly Cunningham, Economist and Senior Fellow, National University System Institute for Policy Research

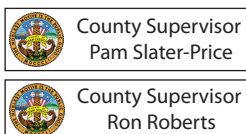
companies have much higher business expenses, but nevertheless these categories ranked second in number. Communication companies ranked third with 12 start-ups.

Although San Diego technology start-ups jumped in number and the local region performed relatively better than the rest of the state, new technology business creations for all of California fell 18 percent during the first quarter of 2009 in comparison to the previous quarter. They fell 56 percent from the same quarter in 2008.

Overall, San Diego accounted for 15 percent of all California new technology businesses, second only to Los Angeles. San Diego accounts for a relatively high proportion of pharmaceutical/ biotech/medical device business start-ups - 23 percent of all the companies started in this category across California originated in San Diego. San Diego also generated 19 new pharma/biotech/medical businesses - the most of any county across the state.

The meltdown of national and international credit markets has made it particularly difficult for new companies to find financing. Venture capital (VC) investment during the first quarter of 2009 fell in San Diego to the

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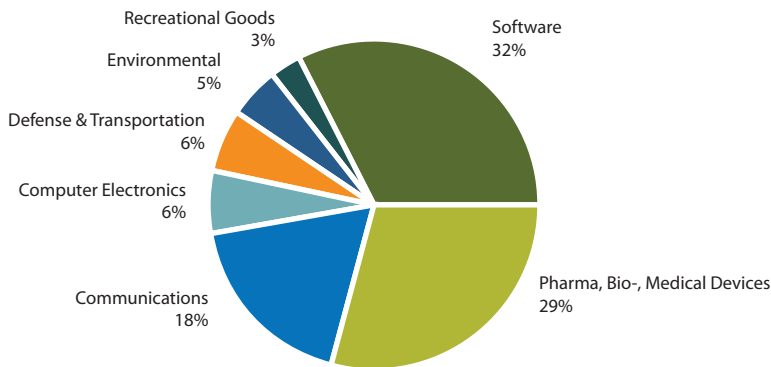


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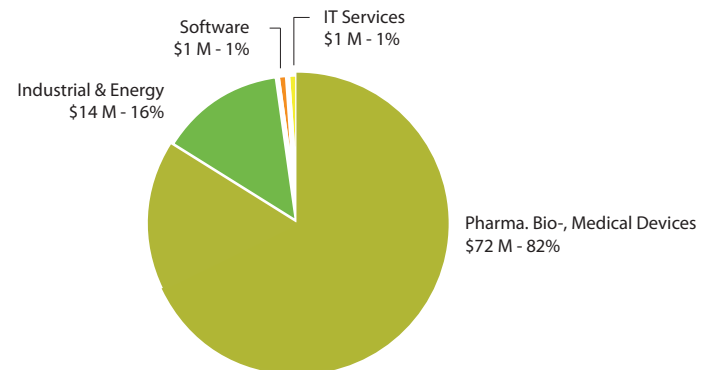
UC San Diego | Extension

San Diego Start Ups by Industry - Q1 2009



Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report

San Diego VC Investments by Industry - Q1 2009



Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report

lowest level in 12 years. The PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report indicates during the first quarter of 2009, 15 local companies received a total of \$87 million in venture capital. This was a decrease of \$117 million, or 57 percent, from the immediately preceding quarter, when \$204 million was invested in 23 companies. It was a decrease of 80 percent from the first quarter of 2008, when \$441 million was invested in 40 companies.

Nationally, venture capital investments were down \$2.7 billion during the first quarter of 2009 compared to the fourth quarter of 2008. In the first quarter of 2009, \$3 billion was invested in 549 companies. This total investment represents a decrease of 47 percent from the previous quarter when 5.7 billion was invested in 866 companies. The first quarter of 2009 results compared to the first quarter of 2008 show a decrease of investments of 61 percent, when \$7.7 billion was invested in 997 companies.

Jim Ingraham, partner at PricewaterhouseCoopers noted, "While certainly not good news, the decline in investing was not unexpected given the macro-economic trends and the lack of an IPO or M&A exit market. VCs are slowing their pace of investments, waiting for the markets to stabilize and the uncertainty to go away... Once that happens, I would expect to see an increase in VC investing. That being said, there are other factors impacting VCs that will have long lasting impacts on total VC investment."

In the first quarter of 2009, there were no investments in networking and equipment, telecommunications, semiconductors, media and entertainment, electronics/instrumentation or IT services. These sectors had a combined \$81 million in investment in the preceding quarter.

Summary of National Venture Capital Investments

Region		2007	2008	2008 Q1	2009 Q1
United States	Total (in Billions)	\$30.9	\$28.3	\$7.9	\$3.0
	# of Deals	3,952	3,808	988	549
	Average (in Millions)	\$7.8	\$7.4	\$8.0	\$5.5
California	Total (in Billions)	\$14.7	\$14.3	\$4.0	\$1.5
	# of Deals	1,626	1,552	429	229
	Average (in Millions)	\$9.0	\$9.2	\$9.6	\$6.4
Northern CA*	Total (in Billions)	\$11.1	\$11.1	\$3.1	\$1.2
	# of Deals	1,255	1,189	328	175
	Average (in Millions)	\$8.9	\$9.3	\$9.3	\$6.7
Southern CA**	Total (in Billions)	\$3.6	\$3.2	\$0.97	\$0.255
	# of Deals	371	363	101	54
	Average (in Millions)	\$9.7	\$8.8	\$9.6	\$5.5
San Diego	Total (in Billions)	\$2.0	\$1.2	\$0.44	\$0.087
	# of Deals	163	126	40	15
	Average (in Millions)	\$12.0	\$9.7	\$11.0	\$5.8

* includes Silicon Valley and Sacramento

** includes Los Angeles County, Orange County, and San Diego

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report; CONNECT

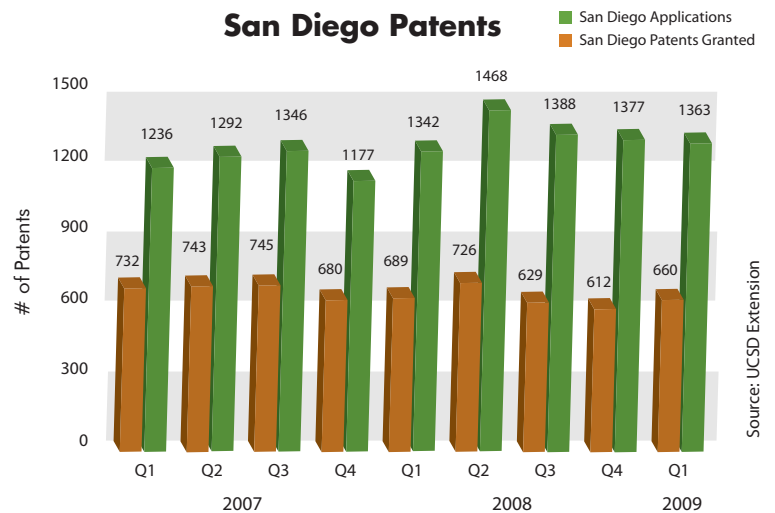
NIH Funding Jumps 70%

This quarter saw little change in the number of patent applications or patents granted compared to the last quarter of 2008 or in comparison to the same quarter last year. These trends were mirrored at the state-wide level.

Funding from NSF, NASA and NOAA was relatively unchanged in comparison to the last quarter of 2008 but NIH funding jumped almost 70 percent during this same period. Compared to same quarter last year, NIH, NASA and NOAA funding showed little change, but NSF funding was up 35 percent. These trends were seen across the state.

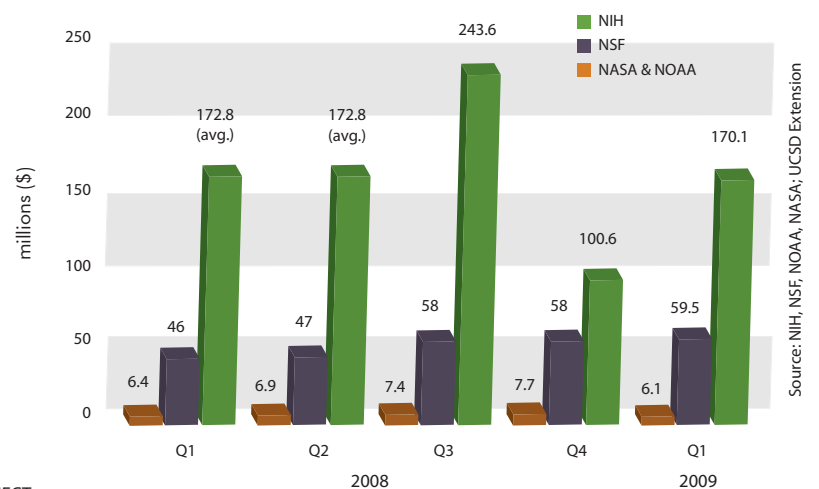
The latest data from the Quarterly Census of Employment and Wages, US Bureau of Labor Statistics, on employment and average weekly wages paid by private research institutions in San Diego, shows that wages fell in the first three quarters of 2008 by 18 percent while employment increased slightly.

San Diego Patents



Source: UCSD Extension

Federal Research Grants Received for San Diego



Source: NIH, NSF, NOAA, NASA; UCSD Extension