

CONNECT INNOVATION REPORT

A QUARTERLY EVALUATION OF OUR INNOVATION ECONOMY IN SAN DIEGO AND ACROSS CALIFORNIA

Q4.09

New Start-ups & Employment / VC investment / M&A Activity / New Patents / Research Grants / Research Wages & Employment

IN 2009, NEW SAN DIEGO TECH START-UPS CREATE OVER 1,000 JOBS; FEDERAL GRANTS EXCEED \$1.1 BILLION

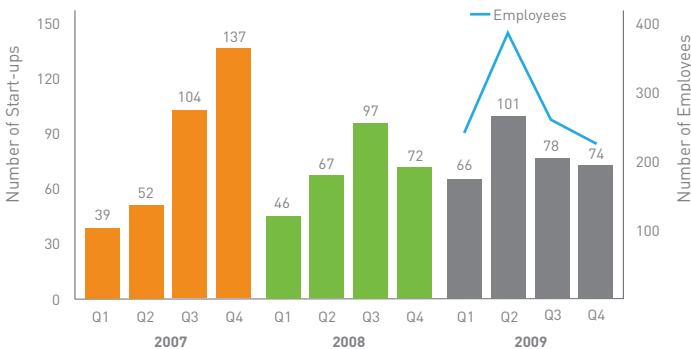
CONNECT's newly released Fourth Quarter 2009 Innovation Report shows over 300 new technology start-ups were formed in San Diego in 2009, up 13% from the previous year. These companies created an estimated 1,070 jobs in San Diego. Federal funding from the National Institutes of Health and National Science Foundation awarded to San Diego organizations in 2009 was up 35% at nearly \$1.2 billion. Award levels were lower in the fourth quarter of 2009 as compared to the previous quarter.

The CONNECT Innovation Report (CIR) is the first to provide an economic indicator of the 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 and newly added employment data
- Venture capital investment
- Mergers and acquisition activity
- New patent applications and patents granted
- Research grants
- Research employment and wages

Statewide, San Diego accounted for 11% of new technology businesses in the fourth quarter of 2009, ranking third after Los Angeles (LA) and Santa Clara counties. San Diego had 74 start-ups, down four from the previous quarter while LA had 145 start-ups, up from 105, and Santa Clara had 108, a slight jump.

SAN DIEGO INNOVATION START-UPS BY QUARTER



Source: CONNECT; National University System Institute for Policy Research

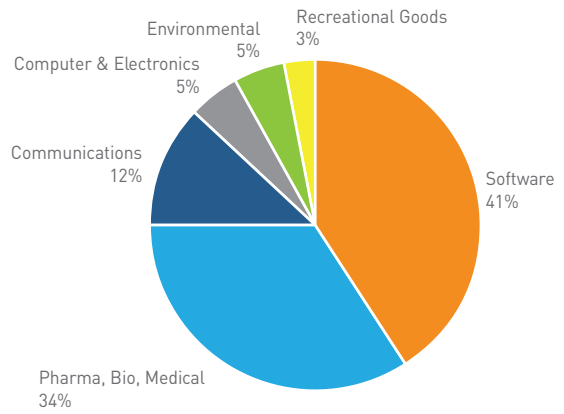
San Diego also ranked third in life science start-ups after LA and Santa Clara in the fourth quarter with 25 new companies. San Diego's software sector again showed the strongest gain in number of new companies with 30 new companies – up 15% from 26 start-ups in the third quarter of 2009. The communications sector ranked third with nine start-ups. San Diego's computer electronics and environmental technology (cleantech) sectors both had four start-ups each.

California overall showed an increase in start-up creation in the fourth quarter with 700 new technology companies established compared to 617 in the third quarter – a 13% increase. This was also up 21% from the fourth quarter of 2008 when 580 companies were started. Consistent with the trend in San Diego, the state's software sector accounted for the highest number of technology start-ups in the fourth quarter of 2009 with 231 new companies statewide, up 20% from third quarter. Pharma/biotech/medical devices followed with 162 startups, up 17%. The largest percentage increase in new company formation was in the recreational goods (action & sports innovation) sector with 13 start-ups, up 117% over the third quarter. California start-ups were up 29% in defense & transportation (31) and 18% in computer electronics. The communications sector was down 5% with 98 new



companies from the 103 companies established in the previous quarter. Year-on-year, California had 2,522 innovation start-ups in 2009, up 15% from 2,197 in 2008.

SAN DIEGO START-UPS BY INDUSTRY – FOURTH QUARTER 2009



Source: National University System Institute for Policy Research; CONNECT

SAN DIEGO VC FUNDING UP IN FOURTH QUARTER, RANKING 4TH IN NATION

Venture capital investment in San Diego was up 52% from the fourth quarter of 2008 with 30 local companies receiving \$300 million, according to the latest PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report. San Diego as a region moved up to fourth behind Silicon Valley, New England, and New York Metro regions. Southern California (San Diego and LA/Orange Counties) ranked third nationally with VC investments of \$588 million for the quarter. The amount of VC funding was up 16% from the \$259 million raised by 35 San Diego companies in the third quarter of 2009.

Overall, venture capital investment in San Diego companies was down for the second year in a row with just over \$900 million raised by 107 companies in 2009. This is down 25% from the \$1.2 billion raised by 132 companies in 2008. The life sciences sector received the majority of the financing during the fourth quarter of 2009 - \$202 million or 67% of the total funds invested. This is up slightly from \$155 million invested in the life science sector in the third quarter of 2009. The industrial/energy sector received the second largest investment at \$34 million raised by four companies. This was followed by the software sector at \$32 million with three companies funded.

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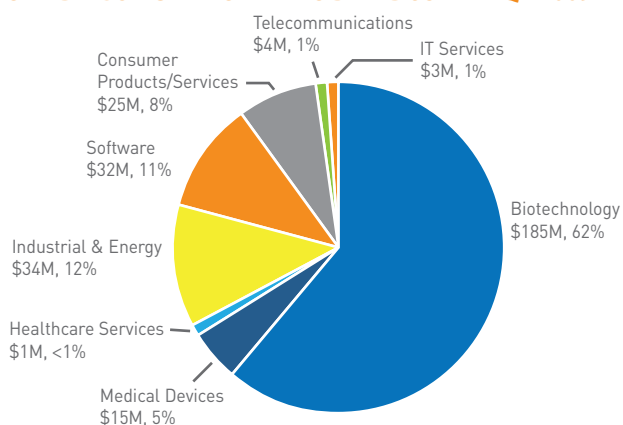
SUMMARY OF NATIONAL & REGIONAL VENTURE CAPITAL INVESTMENTS

Region		2007	2008	2009	2009 Q3	2009 Q4
United States	Total (in Billions)	\$30.5	\$28.0	\$17.7	\$5.1	\$5.0
	# of Deals	4,027	3,985	2,795	689	794
	Average (in Millions)	\$7.6	\$7.0	\$6.3	\$7.4	\$6.3
California	Total (in Billions)	\$14.6	\$14.0	\$8.9	\$2.9	\$2.5
	# of Deals	1,663	1,626	1,137	293	323
	Average (in Millions)	\$8.8	\$8.6	\$7.8	\$9.8	\$7.8
Northern CA	Total (in Billions)	\$11.0	\$10.8	\$7.0	\$2.4	\$1.9
	# of Deals	1,273	1,251	871	219	253
	Average (in Millions)	\$8.6	\$8.6	\$8.0	\$10.7	\$7.5
Southern CA	Total (in Billions)	\$3.6	\$3.2	\$1.9	\$0.5	\$0.6
	# of Deals	390	375	266	74	70
	Average (in Millions)	\$9.3	\$8.5	\$7.0	\$6.9	\$8.6
San Diego	Total (in Billions)	\$1.9	\$1.2	\$0.9	\$0.26	\$0.3
	# of Deals	167	132	107	35	30
	Average (in Millions)	\$11.6	\$9.0	\$8.4	\$7.4	\$10.0

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

Of the total VC investment in San Diego companies in the fourth quarter, 53% went to start-up/early stage companies. Financing of later stage companies increased to 28% of the total in San Diego compared to 16% in the second quarter of 2009. Vanessa Herbert, Senior Manager at PricewaterhouseCoopers, commented, "...Southern California remains in the top three regions nationally receiving venture capital investments. Investments in San Diego continue to be predominantly in the life sciences sector."

SAN DIEGO VC INVESTMENTS BY INDUSTRY – Q4 2009



VALUE OF M&A DEALS JUMPS

The fourth quarter of 2009 saw the size of M&A deals jump significantly across California. However, the number of reported deals closed was lower. In San Diego, 29 deals totaling nearly \$1.3 billion were closed in the fourth quarter compared to 32 deals valued at \$99 million in the third quarter. The total deal values reported in northern California were up by nearly \$15 billion in the fourth quarter. San Diego and southern California M&A activity was up by over \$1 billion for the quarter. San Diego accounted for 14% of the deals and 11% of the reported total transaction value statewide in 2009.

Region		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Totals
Northern CA	Total Reported Value (in Millions)	\$4,949	\$1,866	\$2,520	\$17,134	\$26,469
	# of Closed Deals	91	89	155	136	471
Southern CA	Total Reported Value (in Millions)	\$6,195	\$1,169	\$1,827	\$3,181	\$12,372
	# of Closed Deals	103	74	134	131	442
San Diego	Total Reported Value (in Millions)	\$2,703	\$139	\$99	\$1,250	\$4,191
	# of Closed Deals	42	24	32	29	127

Source: IQ Capital; Roth Capital Partners; CONNECT

Selected Reported Fourth Quarter 2009 M&A Deals – San Diego

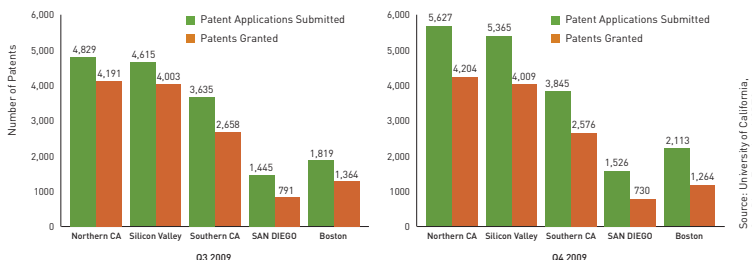
Target/Issuer	Buyer/Investor	Transaction Value (in Millions)
Calixa Therapeutics, Inc.	Cubist Pharmaceuticals Inc.	\$402.5
Charlotte Russe Holding, Inc	Advent International Corporation	\$371.2
First Advantage Corporation	First American Corp.	\$226.8
BioDuro, LLC	Pharmaceutical Product Development Inc.	\$77.0

PATENTS APPLICATIONS UP ACROSS THE STATE

In San Diego, 730 patents were granted in the fourth quarter of 2009, down 8% compared to the previous quarter when 791 patents were granted. San Diego

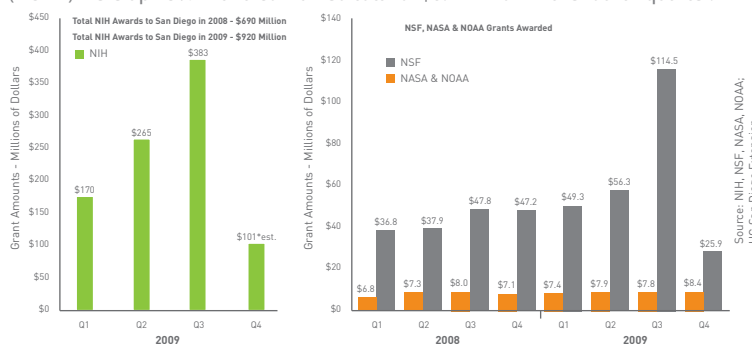
accounted for 16% of the patents filed in California in the fourth quarter, and 11% of the patents granted. Patent applications were up 6% in the fourth quarter with 1,526 applications filed compared to 1,445 in the third quarter of 2009. Similar results were found regionally across the rest of the state and in Boston, one of the top innovation centers nationwide along with southern California and Silicon Valley.

Patent applications submitted were up in all four regions in the fourth quarter while patents granted were essentially flat in Northern California at just over 4,000. Southern California, San Diego and Boston all saw slight declines in the number of patents granted. San Diego companies receiving the most patents granted in the fourth quarter include Qualcomm, Broadcom's San Diego group, Callaway Golf, Sony, Hewlett-Packard, and the University of California, San Diego, accounting for almost 90% of the total.



NIH AND NSF FUNDING JUMP TO NEW HIGHS IN 2009

Federal funding granted to San Diego organizations totaled nearly \$1.2 billion in 2009 – up 35% over the \$889 million awarded in 2008. Federal research grants in San Diego fell in the fourth quarter of 2009 after a surge of funding in the previous quarter. Grant funding awarded by the National Institutes of Health (NIH) fell 74% to just over an estimated \$100 million compared to \$383 million in the third quarter of 2009. The National Science Foundation (NSF) reported \$30 million in grants awarded in San Diego in the fourth quarter of 2009 – nearly 23% of the amount awarded in the previous quarter. Research grants from the National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA) were up 13% with a combined total of \$8.4 million in the fourth quarter.



RESEARCH WAGES AND JOBS DOWN SLIGHTLY

Average weekly wages for San Diego private research institute employees fell nearly 16% in the second quarter of 2009 according to the most recently available data from the US Bureau of Labor Statistics. Average weekly wages in San Diego were almost 25% lower than the average reported in northern California. Northern California had over 54,000 employees in the second quarter compared to nearly 50,000 in the southern California region. San Diego private research institutes employed nearly 23,500 employees in the second quarter.

REGIONAL PRIVATE RESEARCH INSTITUTES



Source: Quarterly Census of Employment, US Bureau of Labor-Statistics