

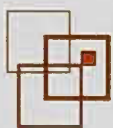
Innovation Report

First Quarter 2010

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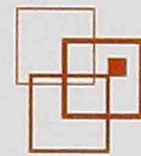


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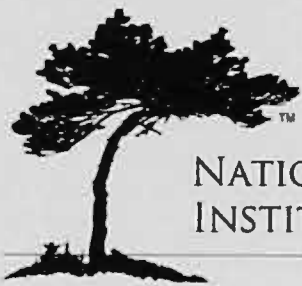


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SAN DIEGO BUSINESS JOURNAL

CONNECT is a nonprofit organization dedicated to creating and sustaining the growth of innovative technology and life science businesses in San Diego. Since 1985, CONNECT has assisted in the formation and development of over 2,000 companies and is widely regarded as the world's most successful regional program linking inventors and entrepreneurs with the resources they need for success. CONNECT focuses on research institution support, business creation and development, entrepreneurial learning, access to capital, public policy advocacy, awards, recognition and networking. Nearly 40 countries and regions have adopted the CONNECT model, including the U.K, Sweden, Norway, Denmark, and Australia, and most recently, New York City. For more information, please visit www.connect.org.

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Introduction

The CONNECT Innovation Report provides a set of indicators of the strength and impact of the innovation economy in San Diego versus other areas of the state or country depending upon the indicator.

The Report is initially focused on San Diego, and includes:

- The number of new innovation start-ups in key regions across California;
- Technology start-up new job creation figures across California;
- Technology sector wages and employment in San Diego;
- Venture capital investment across the U.S., California and San Diego;
- Mergers and acquisition activity across California and San Diego;
- Private placement investment in California and San Diego;
- Initial and follow-on public equity offerings in the U.S. and California;
- Patent activity in San Diego, California and Boston Metro region;
- Federal research grants in San Diego, California and Boston Metro region; and
- Private research organization employment and wages in San Diego, California and Boston Metro region.

The CONNECT Innovation Report tracks the health of the San Diego innovation economy by comparing data year-on-year and quarter to quarter, providing a comparison to selected regions and monitoring availability of various types of capital. The data helps policymakers and trade organizations plan and advocate effectively for sufficient workforce housing, transportation solutions, zoning and availability of resources. The Report also serves as a recruiting and retention tool. It demonstrates that San Diego is a leading center for innovation because of the region’s world-class research, leadership and management talent.

CONNECT Innovation Report Program Committee

Erik Bruvold	President	National University System Institute for Policy Research
Kelly Cunningham	Senior Fellow and Economist	National University System Institute for Policy Research
Steve Hoey	Senior Program Manager	CONNECT
Jim Ingraham	Partner	PricewaterhouseCoopers LLP
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Ted Roth	Managing Director	ROTH Capital Partners
Camille Sobrian	Chief Operating Officer	CONNECT
Peter Thomas	Director	UC San Diego Extension

Executive Summary

CONNECT INNOVATION REPORT

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

Q1.10

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

NEW SAN DIEGO TECH START-UPS DIP IN Q1 2010; TECH SECTOR REPRESENTS 11 PERCENT OF REGION'S JOBS, 25 PERCENT OF WAGES

CONNECT's newly released First Quarter 2010 Innovation Report shows 51 new technology start-ups were formed in San Diego in the first quarter of 2010. This was a decrease of 21% from the first quarter of 2009 and a decrease of 31% from the fourth quarter of 2009. These companies created over 140 new jobs in San Diego. New data shows that although San Diego's tech sector represents only six percent of employers and just over 11 percent of all jobs in the county, tech employment accounts for over 25 percent of all payrolls due to average pay among tech firms being 80 percent higher than the overall average industry wage.

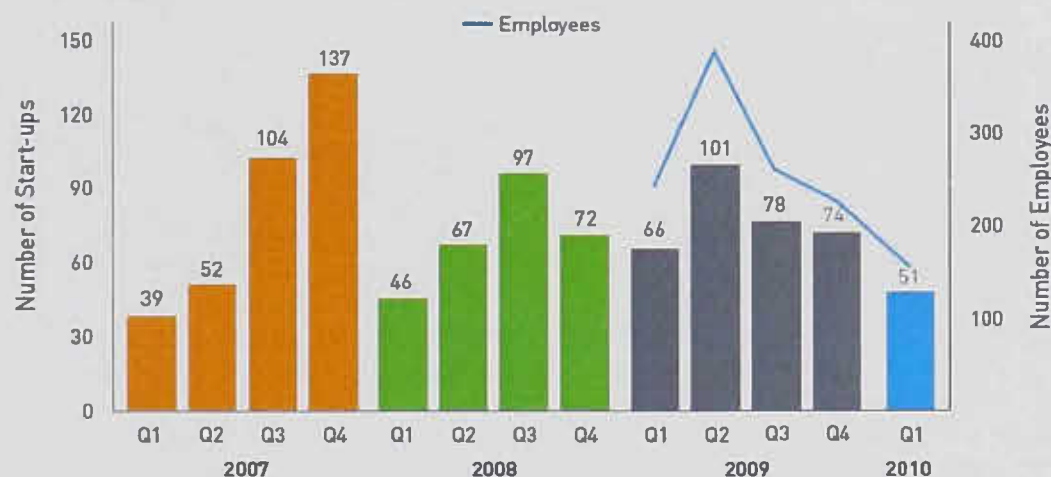
"There appears to be a fairly consistent pattern in start-up formation. The first quarter of the year shows a decrease in number of start-ups and ends up being the lowest quarter of the year. This is most likely a seasonal variation due in part to potentially higher tax liabilities incurred in establishing a new business in the first quarter," commented Kelly Cunningham, Economist and Senior Fellow at the National University System Institute for Policy Research (NUSIPR). "The decrease in the first quarter of 2010 is due more to this seasonal variation than to the economic and financial environment."

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 employment data
- Venture capital investment
- Mergers and acquisition activity
- New patent applications and patents granted
- Research grants
- Technology sector employment and wages, and
- Research organization employment and wages.

Statewide, San Diego accounted for 13% of new technology businesses in the first quarter of 2010, ranking third after Los Angeles (LA) and Santa Clara counties. San Diego had 51 start-ups, down from 74 in the previous quarter while LA had 121 start-ups, down from 145, and Santa Clara had 56, down by nearly half from 108 in the fourth quarter of 2009.

SAN DIEGO INNOVATION START-UPS BY QUARTER



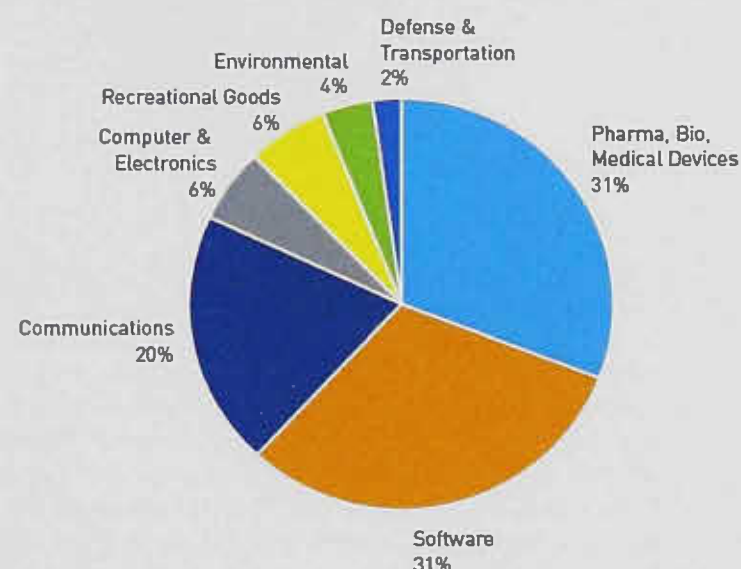
Source: CONNECT; National University System Institute for Policy Research

Most of San Diego's tech sectors showed decreases in number of new companies compared to the fourth quarter of 2009. San Diego ranked second in life science start-ups after LA in the first quarter with 16 new companies. The software sector also had 16 start-ups ranking third statewide after LA's 37 and Santa Clara's 21 software start-ups. San Diego's communications sector ranked second in the state after LA with 10 new companies. The communications, defense and transportation and recreational good manufacturing sectors all showed slight increases in the number of start-ups.



California overall showed a decrease in start-up creation in the first quarter with 442 new technology companies established compared to 700 in the fourth quarter – a 37% decrease. This was also down slightly from the first quarter of 2009 when 476 companies were started. The state's software sector accounted for the highest number of technology start-ups in the first quarter of 2010 with 143 new companies statewide, down 38% from the fourth quarter. Pharma/biotech/medical devices was the second largest sector in the state with 97 startups, down 40% from 162 companies in the fourth quarter of 2009. Overall, nearly 400 new jobs were created in the California's innovation economy in the first quarter of 2010.

SAN DIEGO START-UPS BY INDUSTRY – FIRST QUARTER 2010



Source: National University System Institute for Policy Research; CONNECT

SAN DIEGO VC FUNDING UP FROM FIRST QUARTER 2009, SOUTHERN CALIFORNIA RANKS 3RD IN NATION

Venture capital investment in San Diego was up over 240% from the first quarter of 2009 with 29 local companies receiving \$222 million, according to the most recent PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report. The amount of VC funding was down 27% from the \$305 million raised by 31 San Diego companies in the fourth quarter of 2009. San Diego's regional ranking also declined from fourth to seventh in the first quarter of 2010. Southern California (San Diego and LA/Orange Counties) ranked third nationally with VC investments of \$686 million for the quarter.

"The first quarter continues to show strong support for the life sciences sector with the overall number of companies receiving funding decreasing by only two from the previous quarter," commented Bill Molloy, partner at PricewaterhouseCoopers and leader of the San Diego Life Science and Pharma Practice.

The life sciences sector received the majority of the financing during the first quarter of 2010 receiving \$141 million or 64% of the total funds invested. This figure is down from the \$196 million invested in life sciences companies in the fourth quarter of 2009.

The computers and peripherals sector received the second largest investment with one company (PatientSafe Solutions) receiving \$30 million. This was followed by the software sector at \$25 million with five companies funded. The electronics/instrumentation sector was fourth largest in the first quarter of 2010 with five companies receiving \$10.5 million.

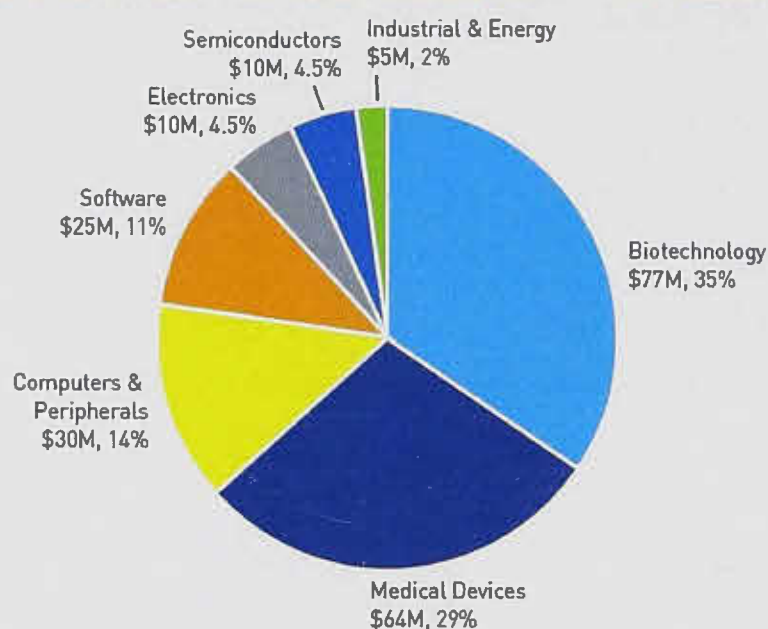
SUMMARY OF NATIONAL & REGIONAL VENTURE CAPITAL

Region		2007	2008	2009	2009 Q4	2010 Q1
United States	Total (in Billions)	\$30.5	\$28.0	\$17.7	\$5.0	\$4.7
	# of Deals	4,027	3,985	2,795	794	681
	Average (in Millions)	\$7.6	\$7.0	\$6.3	\$6.3	\$6.9
California	Total (in Billions)	\$14.6	\$14.0	\$8.9	\$2.5	\$2.2
	# of Deals	1,663	1,626	1,137	323	283
	Average (in Millions)	\$8.8	\$8.6	\$7.8	\$7.8	\$7.9
Northern CA	Total (in Billions)	\$11.0	\$10.8	\$7.0	\$1.9	\$1.5
	# of Deals	1,273	1,251	871	253	205
	Average (in Millions)	\$8.6	\$8.6	\$8.0	\$7.5	\$7.6
Southern CA	Total (in Billions)	\$3.6	\$3.2	\$1.9	\$0.6	\$0.7
	# of Deals	390	375	266	70	78
	Average (in Millions)	\$9.3	\$8.5	\$7.0	\$8.6	\$8.8
San Diego	Total (in Billions)	\$1.9	\$1.2	\$0.9	\$0.3	\$0.2
	# of Deals	167	132	107	30	29
	Average (in Millions)	\$11.6	\$9.0	\$8.4	\$10.0	\$7.7

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report

Of the total VC investment in San Diego companies in the first quarter, 42% went to start-up/early stage companies, down from the previous quarter when 52% went to early stage companies. Financing of later stage companies increased to 42% of the total in San Diego compared to 26% in the fourth quarter of 2009.

SAN DIEGO VC INVESTMENTS BY INDUSTRY – FIRST QUARTER 2010



Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report

NUMBER OF MERGERS & ACQUISITIONS DEALS JUMPS

The first quarter of 2010 saw the number of M&A deals jump significantly across California. However, the value of reported deals closed was lower. In San Diego, 46 deals were closed in the first quarter compared to 29 deals in the preceding quarter – a 59% increase. San Diego accounted for 13% of the deals reported statewide in the first quarter. The reported deal value of private placement deals was also up across the state in the first quarter of 2010. The reported value of San Diego private placement deals more than doubled in the first quarter to \$132 million from \$61 million in the fourth quarter of 2009.

REGIONAL M&A DEALS - FIRST QUARTER 2010

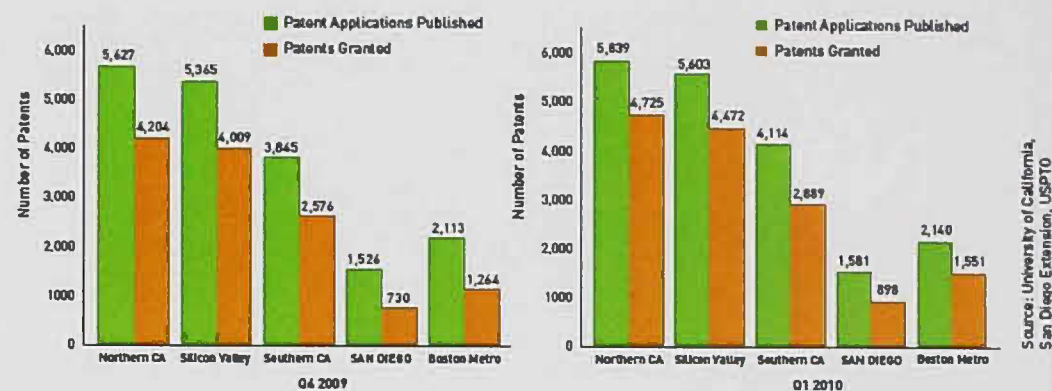
Region		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Totals	2010 Q1
Northern CA	Total Reported Value (in Millions)	\$4,949	\$1,866	\$2,520	\$17,134	\$26,469	\$17,069
	# of Closed Deals	91	89	155	136	471	195
Southern CA	Total Reported Value (in Millions)	\$6,195	\$1,169	\$1,827	\$3,181	\$12,372	\$19,127
	# of Closed Deals	103	74	134	131	442	153
San Diego	Total Reported Value (in Millions)	\$2,703	\$139	\$99	\$1,250	\$4,191	\$845
	# of Closed Deals	42	24	32	29	127	46

Source: IQ Capital; Roth Capital Partners

PATENTS UP ACROSS THE STATE

In San Diego, 898 patents were granted in the first quarter of 2010, up 23% compared to the previous quarter when 730 patents were granted. Patent applications published were up slightly in the first quarter of 2010 with 1,551 applications filed compared to 1,526 in the fourth quarter of 2009. San Diego accounted for 16% of the patent applications published in California in the first quarter and 12% of the patents granted. Similar increases 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.

REGIONAL PATENT ACTIVITY Q4 2009 VS. Q1 2010

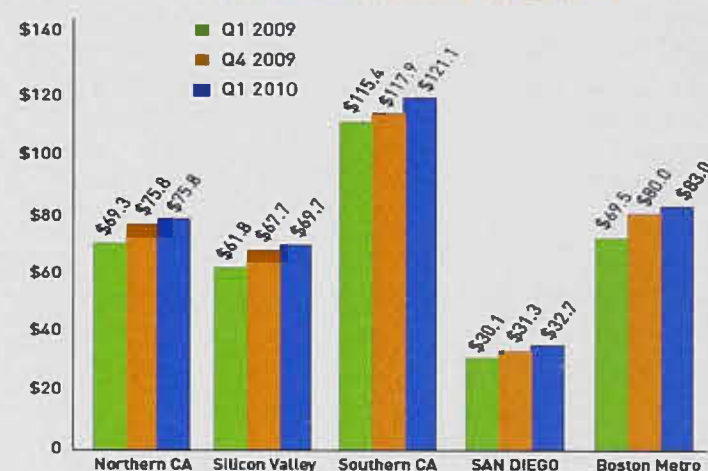


Source: University of California, San Diego Extension, USPTO

SOUTHERN CALIFORNIA LEADS NATION IN NSF FUNDING

The National Science Foundation (NSF) reported nearly \$33 million in grants awarded in San Diego in the first quarter of 2010 – an increase of 9% over the amount awarded in the first quarter of 2009 and 4% over the fourth quarter of 2009. Southern California lead the nation in NSF funding received with over \$120 million awarded in the first quarter of 2010. This represents a 3% increase over the fourth quarter and a 5% increase over the first quarter of 2009. Research grants from the National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA) to San Diego organizations were down 24% with a combined total of \$6.4 million in the first quarter.

REGIONAL NSF FUNDING



National Science Foundation (NSF); UCSD Extension

TECH SECTOR REPRESENTS OVER 25 PERCENT OF SAN DIEGO WAGES

Based on the most recently available data from the California Employment Development Department (EDD) quarterly census of Employment and Wages, technology establishments (businesses or employers) in San Diego numbered 5,852 as of second quarter 2009, with 14,500 employees, and \$3 billion total annual payroll. Recent estimates by NUSIPR economist Kelly Cunningham suggest that the recession's impact on tech sector employment has not been as pronounced as in non-tech sectors of San Diego's economy (see table below).

Cunningham said, "The data shows technology employment in San Diego is holding up better than in other employment sectors. Tech employment overall only decreased 2.1 percent over the past two years while San Diego's total employment fell 8.1 percent."

The NUSIPR findings also show that total tech sector wages represent over 25 percent of all payrolls in San Diego. "It is readily apparent that tech employment pays considerably more than the overall industry wage average," Cunningham commented. Average pay among tech firms is \$85,800, more than 80 percent higher than San Diego's overall average of \$47,400 per job. Communications and equipment manufacturers (\$101,900) and computer and electronics (\$98,000) have the highest averages, followed by software (\$85,000), biotechnology and pharmaceuticals (\$82,100), defense/transportation (\$79,400), and environmental technology (\$78,100).

TECHNOLOGY EMPLOYMENT IN SAN DIEGO COUNTY

Employment	Actual					Estimate			
	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1
Total, All Industries	1,316,600	1,330,600	1,311,300	1,312,200	1,316,600	1,258,700	1,236,700	1,238,500	1,222,600
Total Private	1,089,700	1,101,400	1,103,200	1,085,700	1,089,700	1,030,100	1,021,300	1,015,900	1,002,100
Total Technology	139,000	140,600	141,600	142,100	140,100	140,500	138,900	138,700	137,700

Source: National University System for Policy Research; EDD

Innovation Economy Employers and Employment Data

New quarterly CONNECT Innovation Report shows formation of new tech start-ups in San Diego down almost 40 percent; tech sector is 6% of employers but 25% of wages paid

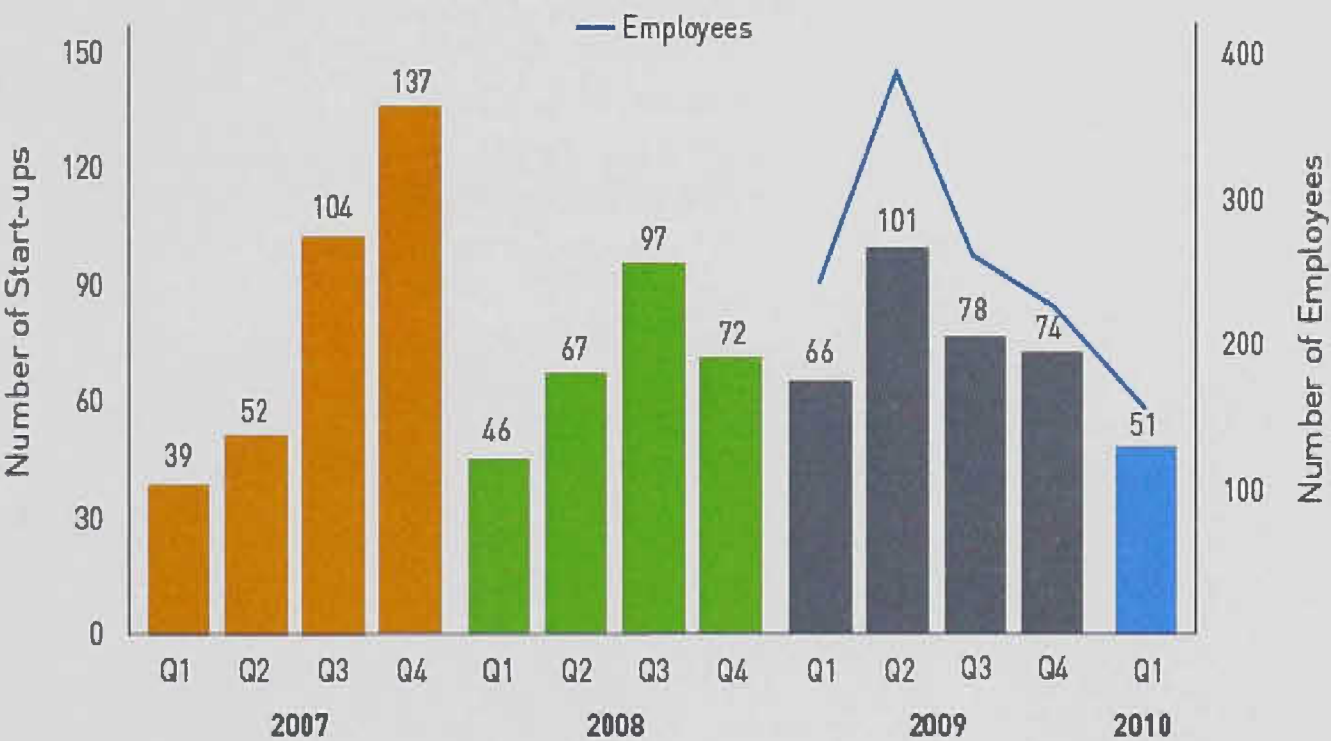
Innovation Start-ups

CONNECT’s newly released First Quarter 2010 Innovation Report shows 51 new technology start-ups were formed in San Diego in the first quarter of 2010. This was a decrease of 21% from the first quarter of 2009 and a decrease of 31% from the fourth quarter of 2009. These companies created over 140 new jobs in San Diego. New data shows that although San Diego’s tech sector represents only six percent of employers and just over 11% of all jobs in the county, tech employment accounts for over 25% of all payrolls. Average pay among tech firms is 80% higher than the overall average industry wage.



“There appears to be a fairly consistent pattern in start-up formation both in San Diego and across the state. The first quarter of the year shows a decrease in number of start-ups and ends up being the lowest quarter of the year. This is most likely a seasonal variation due in part to potentially higher tax liabilities incurred in establishing a new business in the first quarter,” commented Kelly Cunningham, Economist and Senior Fellow at the National University System Institute for Policy Research (NUSIPR). “The decrease in the first quarter of 2010 is due more to this seasonal variation than to the economic and financial environment.”

San Diego Innovation Start-ups by Quarter



Source: CONNECT; National University System Institute of Policy Research

Statewide, San Diego accounted for 13% of new technology businesses in the first quarter of 2010, ranking third after Los Angeles (LA) and Santa Clara counties. San Diego had 51 start-ups, down from 74 in the previous quarter while LA had 121 startups, down from 145, and Santa Clara had 56, down by nearly half from 108 in the fourth quarter of 2009.

Most of San Diego’s tech sectors showed decreases in number of new companies

compared to the fourth quarter of 2009. San Diego ranked second in life science start-ups after LA in the first quarter with 16 new companies. The software sector also had 16 start-ups ranking third statewide after LA’s 37 and Santa Clara’s 21 software start-ups. San Diego’s communications sector ranked second in the state after LA with 10 new companies. The communications, defense and transportation and recreational good manufacturing sectors all showed slight increases in the number of start-ups.

Innovation Economy Employers and Employment Data (con't)

At least 1,100 jobs were created by San Diego's new tech companies in 2009. During 2009, the software sector created more than 300 jobs, while the life sciences sector generated 280 jobs. In the first quarter of 2010, 142 jobs were created in San Diego – down 32% from the previous quarter. The environment technology (cleantech) sector led with 46 new jobs in the first quarter of 2010, followed by the life science sector with 35 and the software sector with 32.

San Diego Tech Start-ups: New Employment – Q1 2009 to Q1 2010

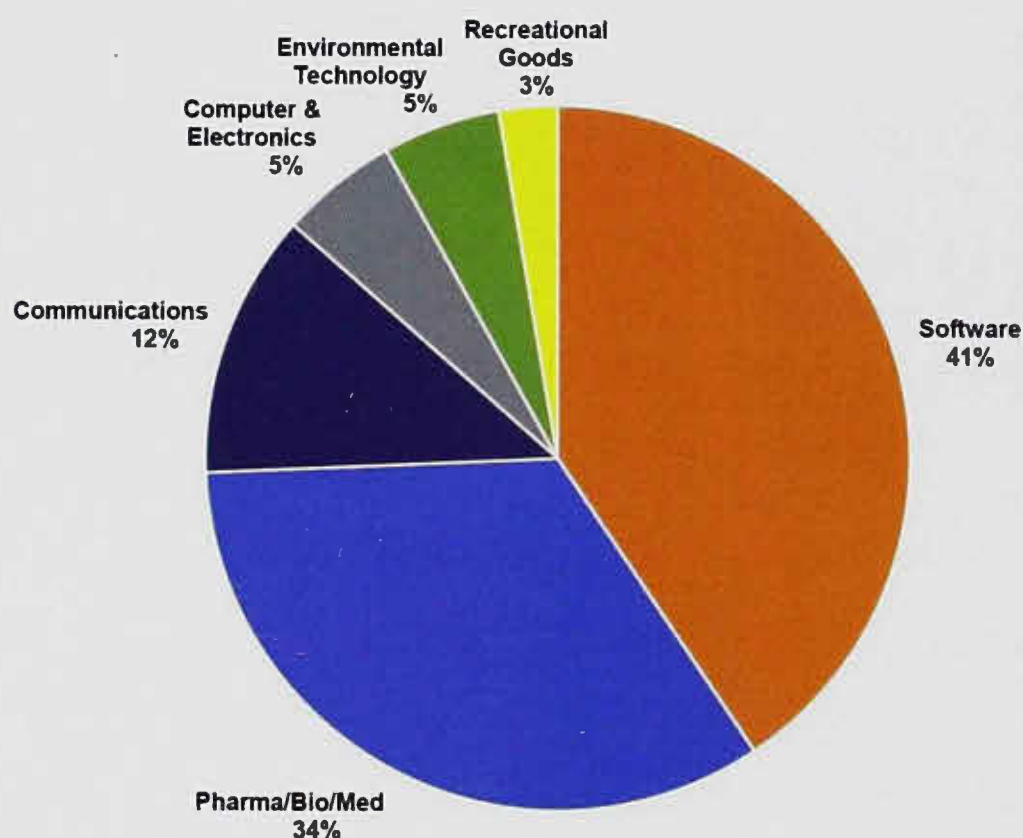
Industry Sector	2009 # of Employees	Q1 2009 # of Employees	Q2 2009 # of Employees	Q3 2009 # of Employees	Q4 2009 # of Employees	Q1 2010 # of Employees
Software	318	43	138	67	69	32
Pharma/Bio/Medical	280	50	117	37	76	35
Environmental Technology	155	53	45	35	22	46
Communications	139	22	38	52	26	17
Computer and Electronics	102	9	37	45	11	4
Defense and Transportation	62	51	0	11	0	4
Recreational Goods	14	3	6	0	5	4
TOTAL	1,069	231	382	247	209	142

Source: CONNECT; National University System Institute for Policy Research

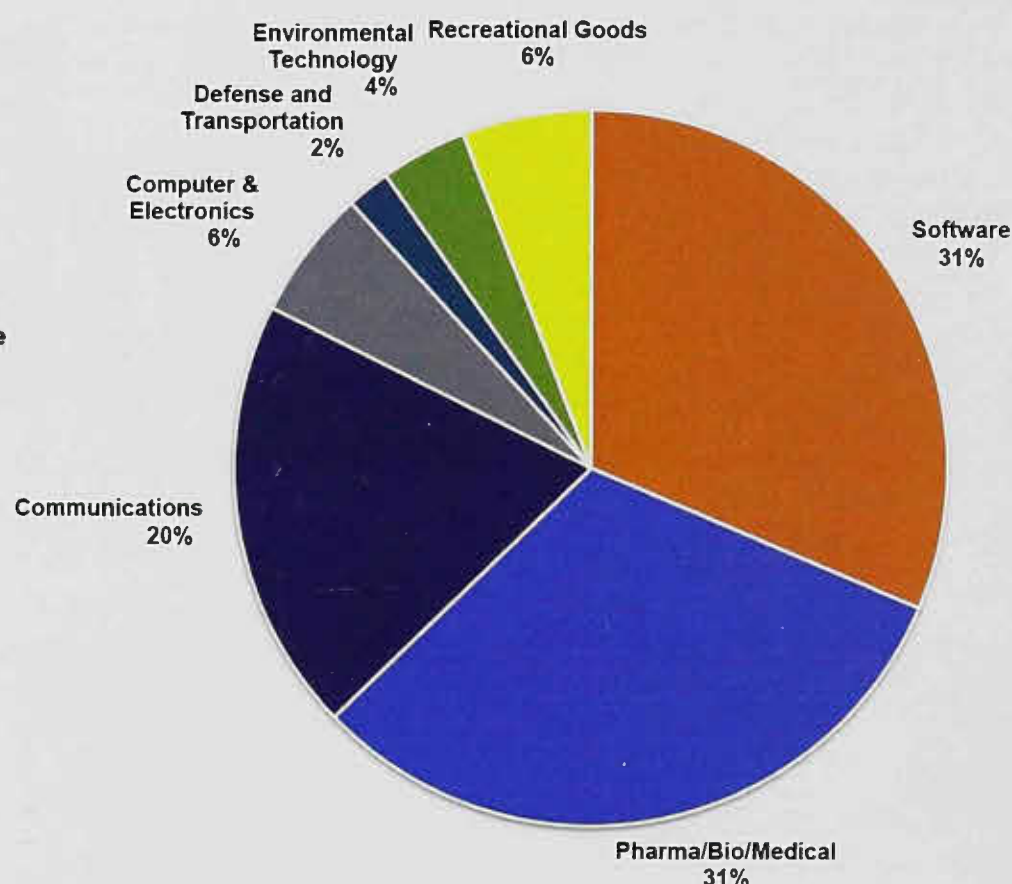
San Diego and California Tech Start-ups by Industry Sector: Q4 2009 versus Q1 2010

California overall showed a decrease in start-up creation in the first quarter with 442 new technology companies established compared to 700 in the fourth quarter – almost a 40% decrease. This was also down slightly from the first quarter of 2009 when 476 companies were started. The state's software sector accounted for the highest number of technology start-ups in the first quarter of 2010 with 143 new companies statewide, down 38% from the fourth quarter. Pharma/biotech/medical devices (life sciences) was the second largest sector in the state with 97 startups, down 40% from 162 companies in the fourth quarter of 2009. Overall, nearly 400 new jobs were created in the California's innovation economy in the first quarter of 2010.

San Diego Q4 2009 – 74 New Companies

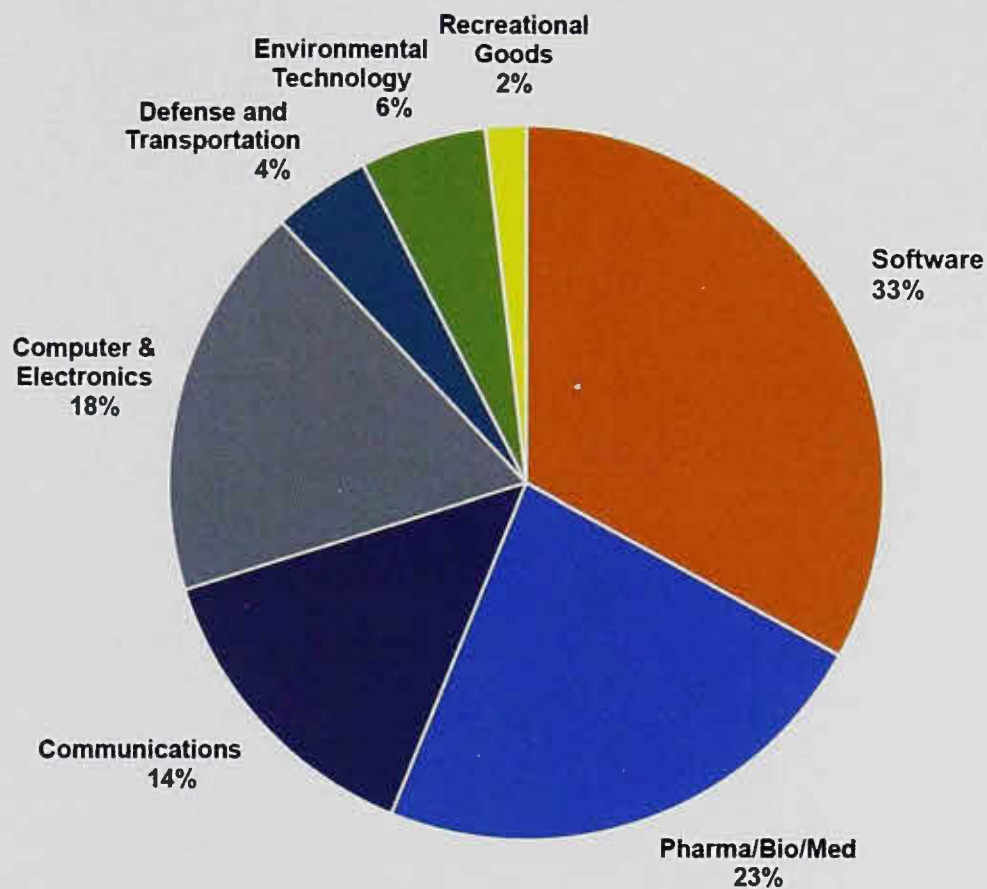


San Diego Q1 2010 – 51 New Companies

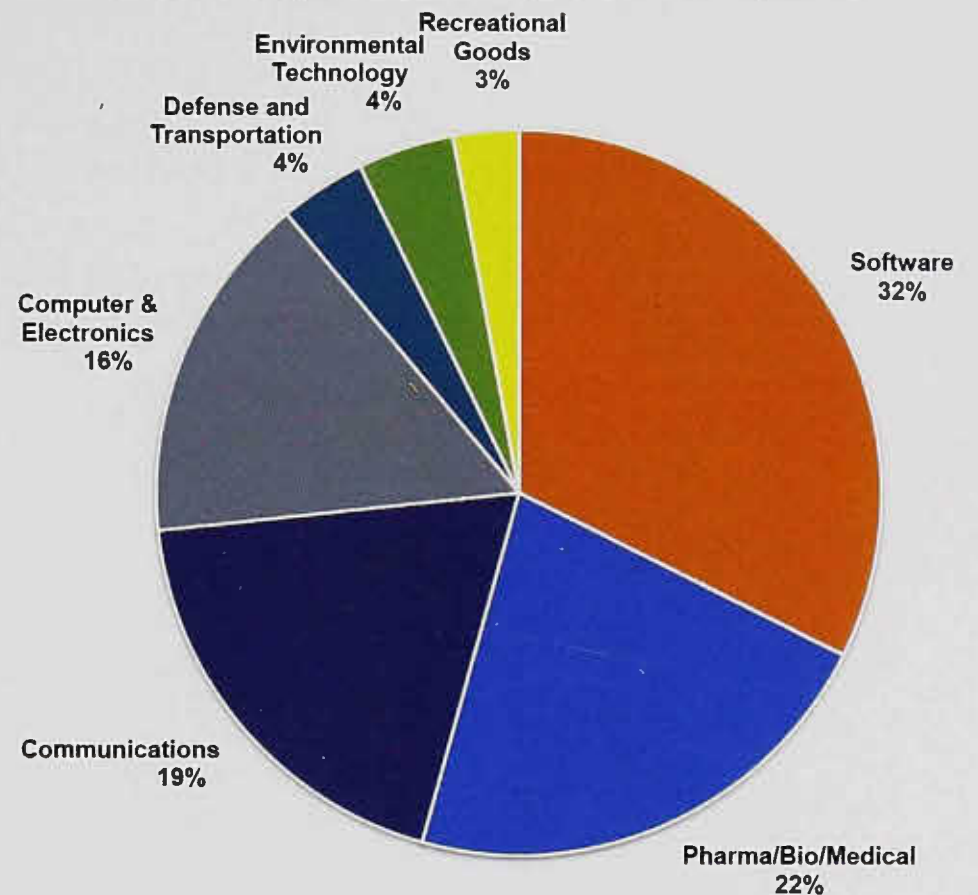


Innovation Economy Employers and Employment Data (con't)

California Q4 2009 – 700 New Companies



California Q1 2010 – 442 New Companies

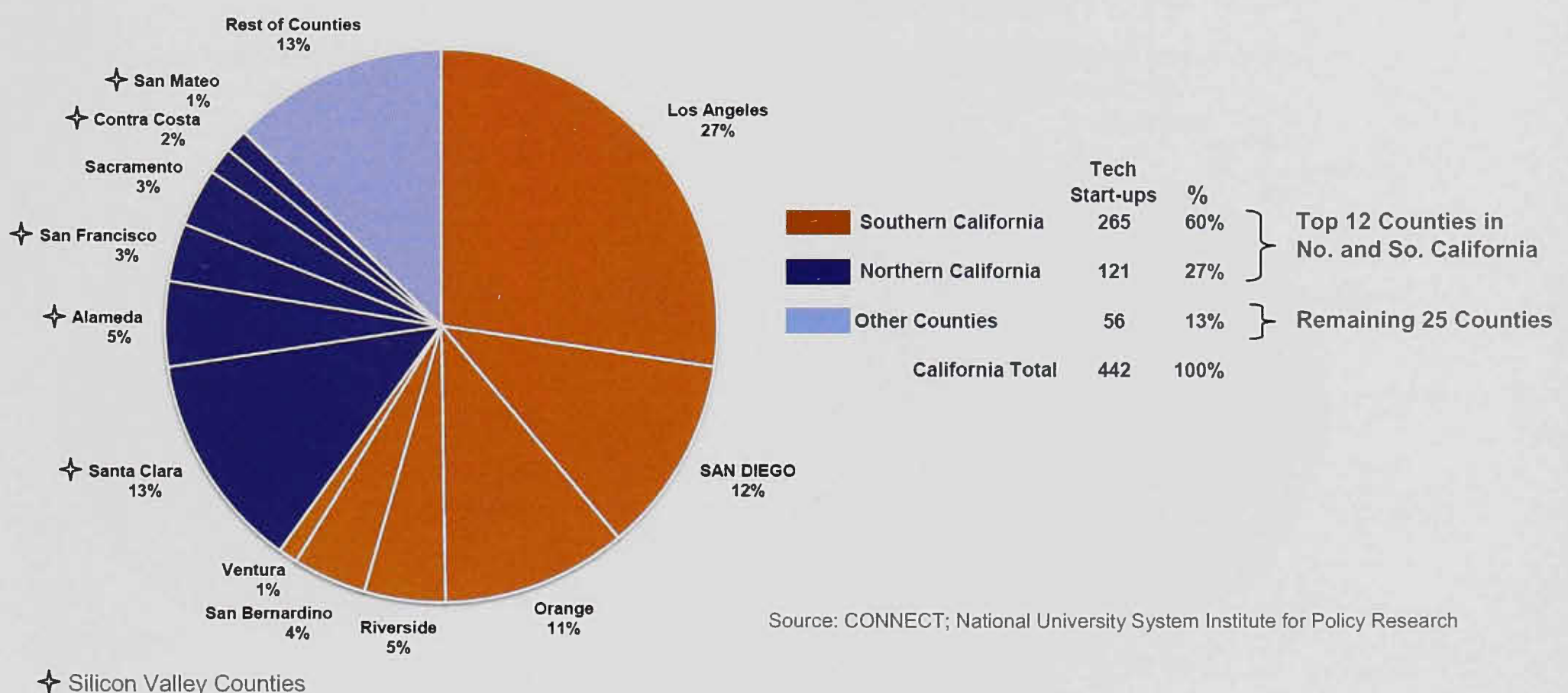


Source: CONNECT; National University System Institute of Policy Research

California Innovation Start-ups: By County – Q1 2010

In California, the top 12 counties accounted for nearly 90% of the 442 tech start-ups in the first quarter. Southern California represented 60% of the technology start-ups established in the first quarter of 2010 with 265 technology companies established. The Silicon Valley/Sacramento region accounted for 27% of the start-ups with over 120 new technology companies. The remaining counties accounted for just over 70 new technology companies, or 13% of the total number of innovation companies established in the first quarter of 2010.

California Innovation Start-ups by County – Q1 2010
442 Companies Statewide



Source: CONNECT; National University System Institute for Policy Research

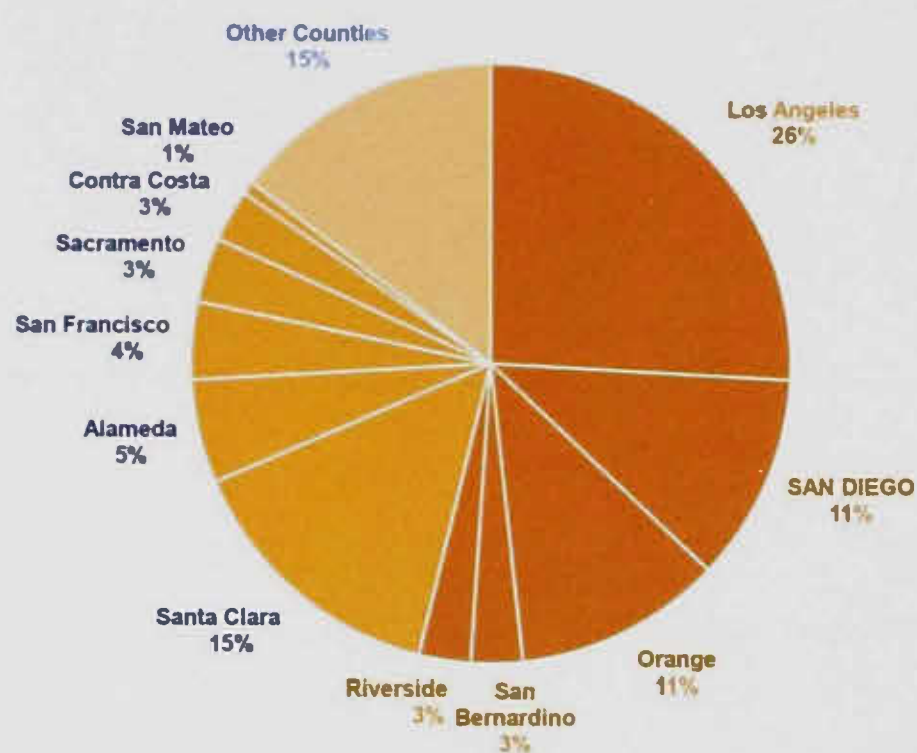
Innovation Economy Employers and Employment Data (con't)

California Innovation Start-ups by Industry Sector and County

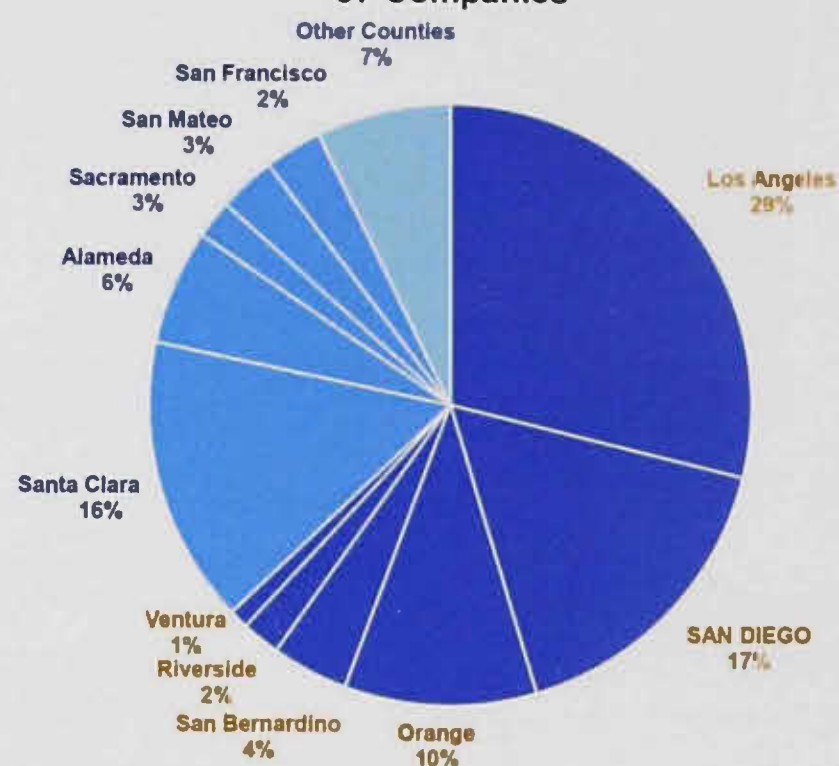
Software and Life Sciences Sectors – First Quarter 2010

In the first quarter of 2010, Los Angeles (LA) County had the most software start-ups with 37 new companies followed by Santa Clara County with 21 companies and San Diego and Orange Counties with 16 new companies each. The software sector was down 3% from the first quarter of 2009, and down 38% from the fourth quarter of 2009. LA County led the state in the first quarter in the life sciences sector with 28 new companies formed, followed by San Diego with 16 and Santa Clara Counties with 15 start-ups. The number of life science start-ups in the first quarter of 2010 was up 15% over the first quarter of 2009 but down 40% from the fourth quarter.

Software Sector
143 Companies



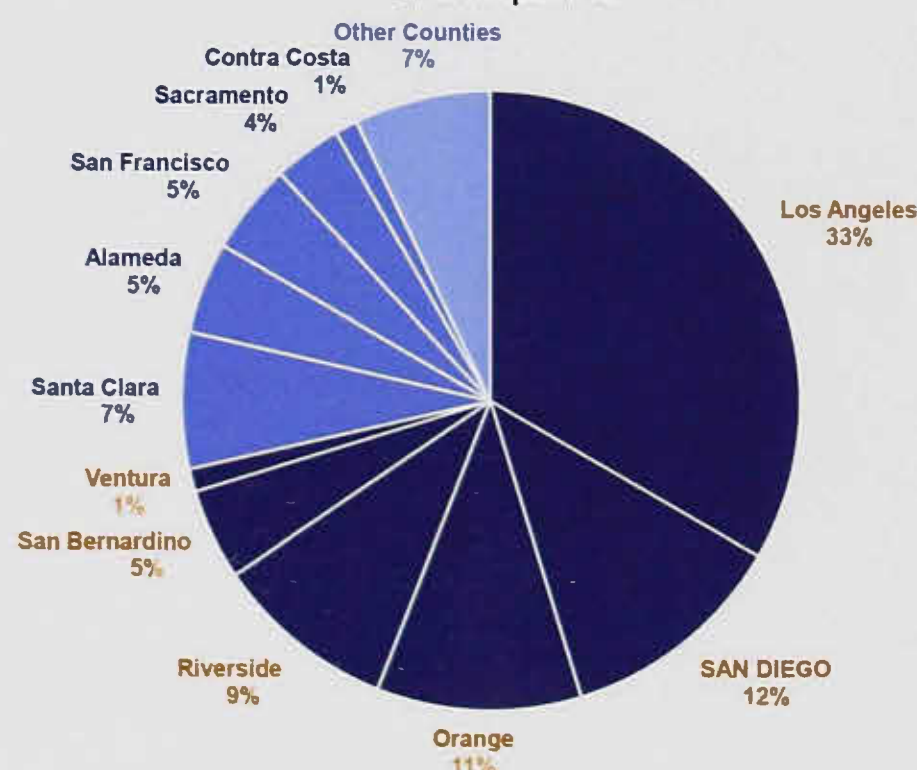
Pharma/Biotech/Medical Device Sector
97 Companies



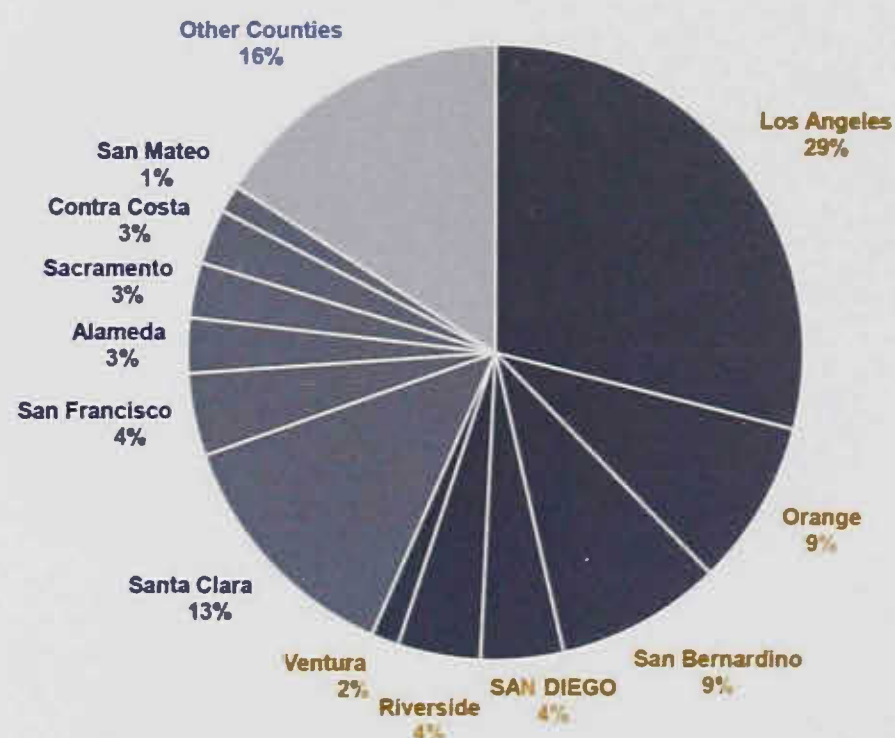
Communications and Computers & Electronics Sectors – First Quarter 2010

LA County had the most communications start-ups in the first quarter with 28 companies, followed by San Diego County with 10 start-ups and Orange County with nine. New company formation in the sector was down 14% from the previous quarter. The computers and electronics sector was down 45% compared to the 125 companies formed in the fourth quarter of 2009. LA County led the state with 20 new companies in the first quarter of 2010 followed by Santa Clara County with nine start-ups.

Communications Sector
84 Companies



Computers and Electronics Sector
69 Companies



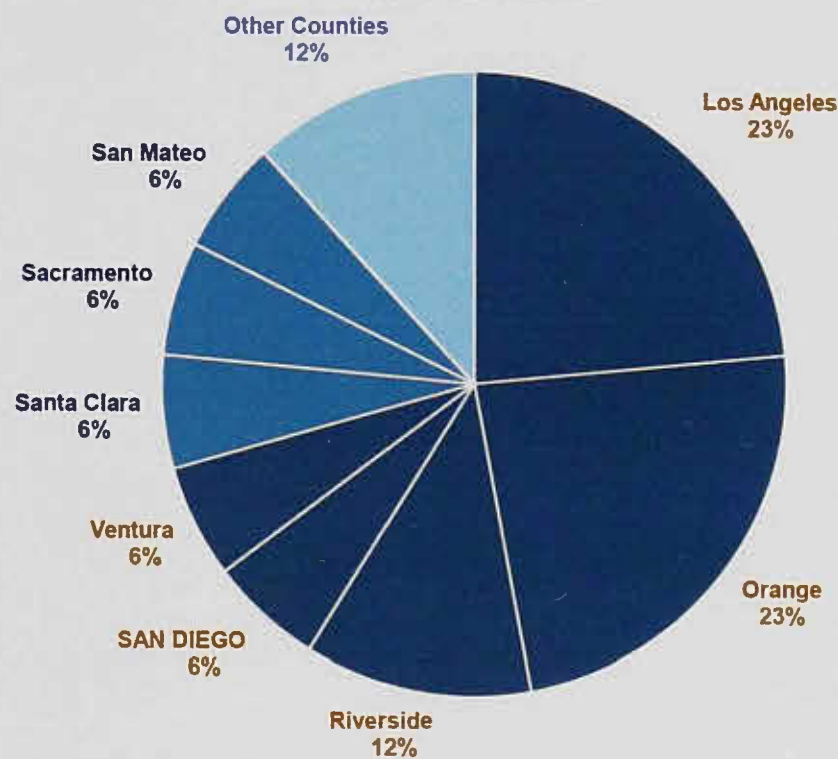
Innovation Economy Employers and Employment Data (con't)

California Innovation Start-ups by Industry Sector and County

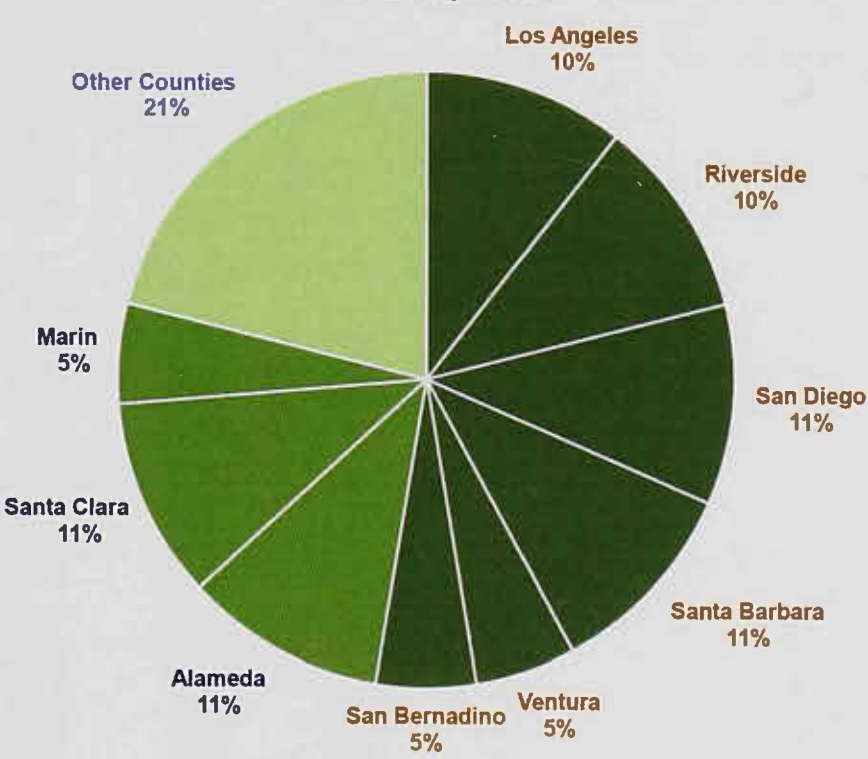
Defense and Transportation and Environmental Technology Sectors – First Quarter 2010

LA and Orange Counties led the state with four defense and transportation start-ups in the first quarter of 2010. Southern California accounted for 70% of state’s tech start-ups in this sector. New company formation was down 41% year-on-year from first quarter 2009, and down 45% over the fourth quarter of 2009. Start-up formation in the environmental technology (cleantech) sector was distributed relatively evenly across the state in the first quarter. Start-ups were down 51% from the 39 companies started in the first quarter of 2009, and down 53% from the fourth quarter of 2009.

Defense and Transportation Sector
17 Companies



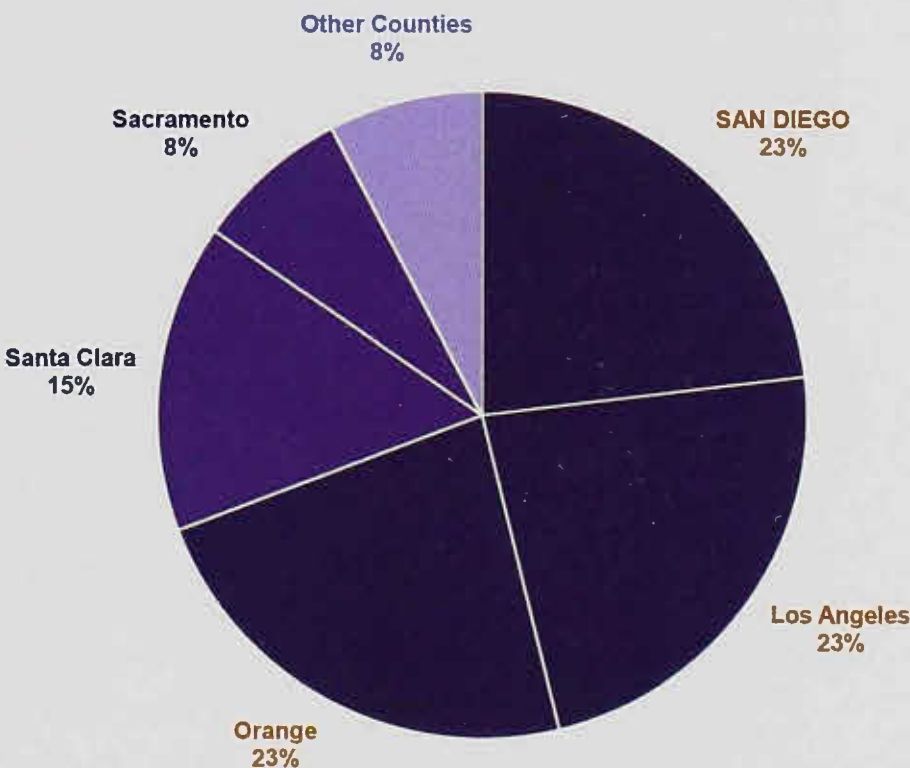
Environmental Technology Sector
19 Companies



Recreational Goods Manufacturing Sector – First Quarter 2010

There were 13 recreational goods manufacturing sector start-ups statewide – the same as in the previous quarter. The sector was down 24% from the 17 start-ups in the first quarter of 2009. Southern California accounted for nearly 70% of the state’s start-ups in the sector – evenly distributed between San Diego, Los Angeles and Orange Counties. Santa Clara and Sacramento Counties accounted for 23% of the sector’s start-ups.

Recreational Goods Manufacturing Sector
13 Companies



Source: CONNECT; National University System Institute for Policy Research

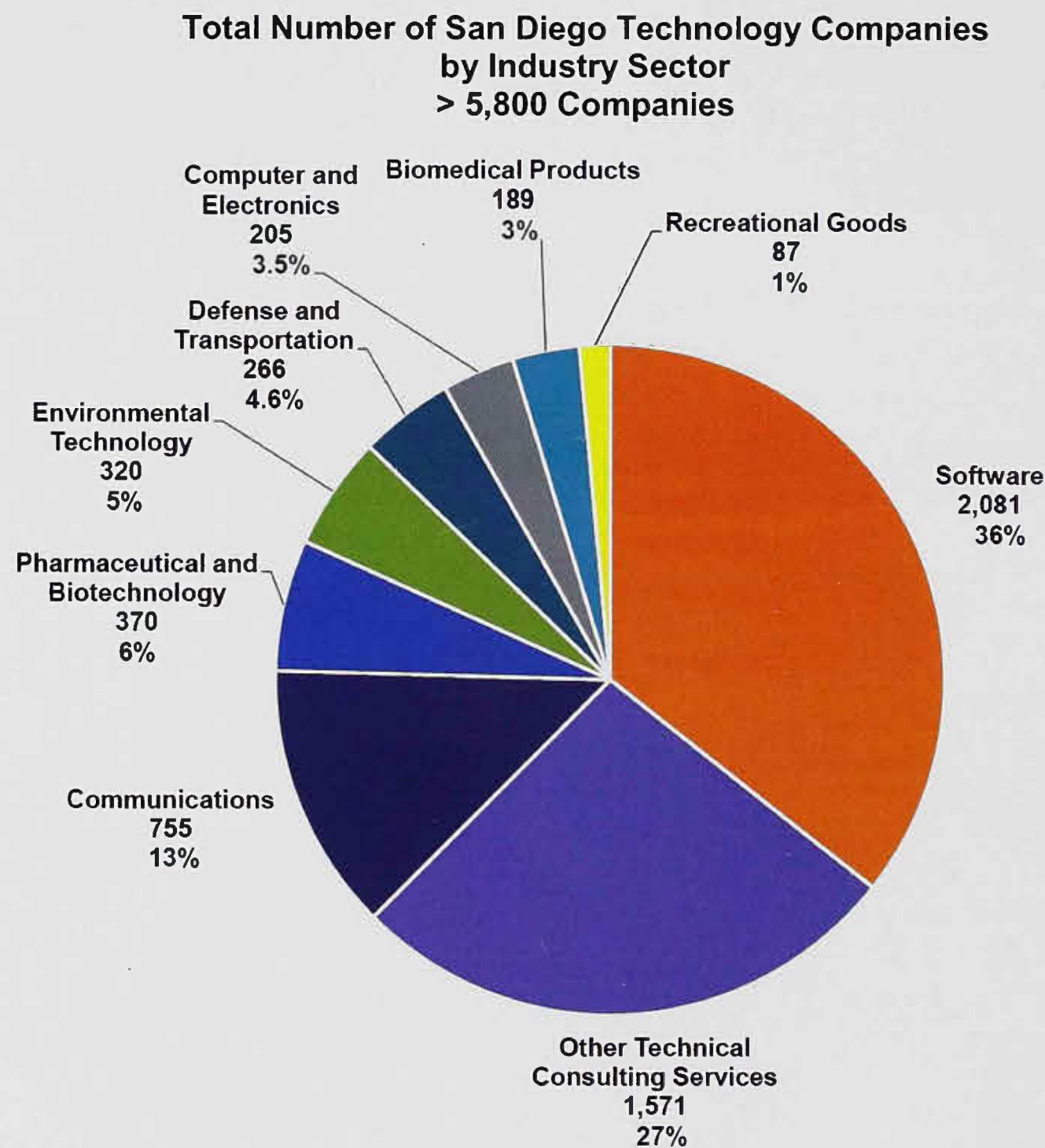
Innovation Economy Employers and Employment Data (con't)

Working in partnership with National University System Institute for Policy Research, CONNECT has added employer employment and wage data for all technology companies in San Diego - both start-ups and established tech companies.

Total San Diego Innovation Economy Data by Sector

Based on data from the California Employment Development Department (EDD) quarterly census of Employment and Wages, technology establishments (businesses or employers) in San Diego numbered almost 5,850 as of the third quarter 2009, with 140,400 employees and \$3 billion total annual payroll. To put this in perspective, technology companies represent only 6% of all San Diego employers, but technology sector employment represents 11% of all jobs and more than one quarter of all payrolls.

Software companies make up more than one third of the total San Diego technology sector with more than 2,000 companies, according to the most recently available EDD census data. Technical consulting services companies account for more than one quarter of the total with nearly 1,600 companies, and the communications sector represents almost 15% with over 775 companies. Life science companies (pharma/biotech/biomedical products) companies make up roughly 10% with more than 500 companies. The environmental technology sector, which includes many of the cleantech industry companies, represents approximately 5% of the total technology sector with 320 companies.

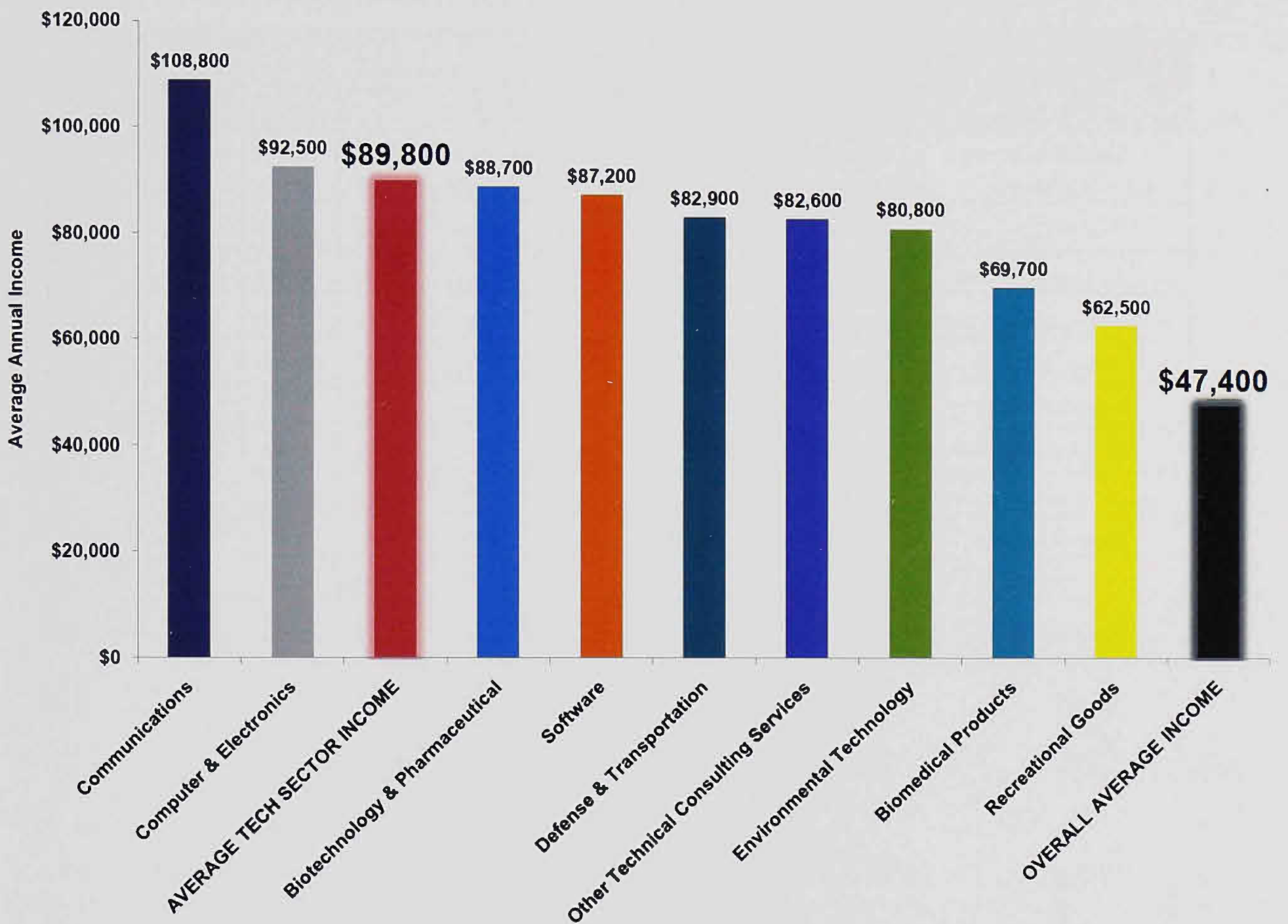


Source: National University System Institute for Policy Research;
EDD Q3 2009 Data

Innovation Economy Employers and Employment Data – All Technology Companies

According to Kelly Cunningham, senior fellow and economist at the National University Institute for Policy Research, “Average pay among tech firms is \$89,800, almost 90% higher than San Diego’s overall average of \$47,400 per job. Communications equipment manufacturers (\$108,800) and computer and electronics (\$92,500) have the highest averages, followed by biotechnology and pharmaceuticals (\$88,700), software (\$87,200), defense/transportation (\$82,900), technical consulting services (\$82,600) and environmental technology (\$80,800).” Cunningham provides the Innovation Report’s economic analysis.

San Diego Average Tech Sector Income Comparison by Industry
Versus Overall Average Income for all Industries



Source: National University System Institute for Policy Research;
EDD Q3 2009 Data

Innovation Economy Employers and Employment Data – All Technology Companies (con't)

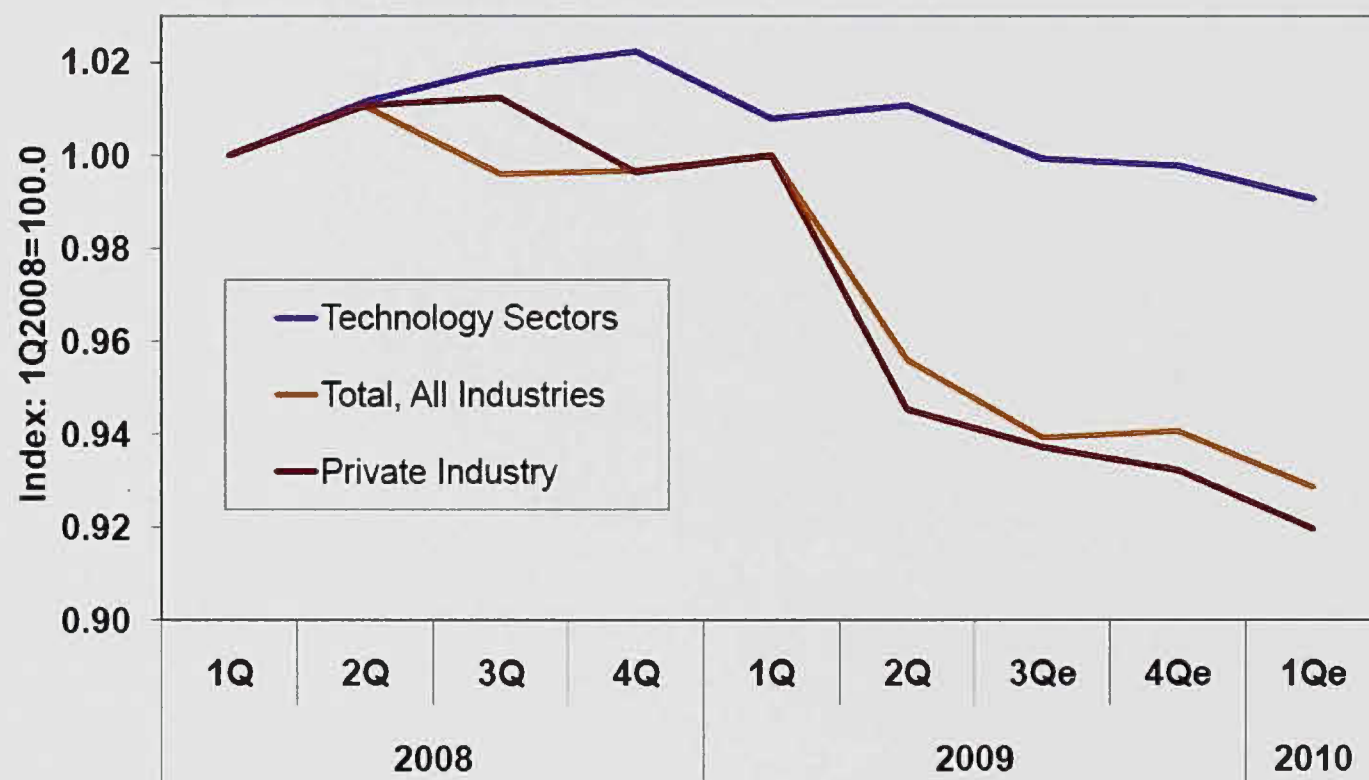
The impact on technology sector employment has not been nearly as pronounced as the recession's overall effect on the economy as a whole. Technology sector employment between the second quarter of 2008 and the first quarter of 2010 fell only 2.1% (2,900 jobs). Three segments (biotechnology, software and other technical consulting services) have actually seen modest increases. Worst hit were the region's communications sector (shedding 1,800 jobs) and defense/transportation sectors (a decline of 1,500 jobs) since the second quarter of 2008. Job losses in the technology sector are estimated to be particularly pronounced in the first quarter of 2010 with total technology employment down by approximately 1,000 jobs. Total technology employment was estimated to be 137,700 at the end of the first quarter of 2010.

Total Employment in San Diego Technology Sector by Cluster versus All Industries

Employment	Actual						Estimate		
	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1
Total, All Industries	1,316,600	1,330,600	1,311,300	1,312,200	1,316,600	1,258,700	1,236,700	1,238,500	1,222,600
Total Private	1,089,700	1,101,400	1,103,200	1,085,700	1,089,700	1,030,100	1,021,300	1,015,900	1,002,100
Total Technology	139,000	140,600	141,600	142,100	140,100	140,500	138,900	138,700	137,700
Biomedical Products	6,600	6,600	6,200	6,200	6,600	6,500	6,300	6,200	6,100
Biotechnology & Pharmaceutical	18,000	18,300	18,700	18,800	18,000	20,100	20,000	20,200	20,000
Communication Equipment Mtg.	30,400	30,600	31,000	30,900	30,400	29,300	29,100	29,000	28,800
Computer & Electronics	13,100	13,800	13,700	13,600	14,000	13,600	13,200	13,000	13,000
Defense & Transportation	26,700	27,000	27,100	27,100	26,900	26,500	26,100	25,700	25,500
Environmental Technology	10,300	10,200	10,400	10,300	10,300	10,000	9,900	9,900	9,800
Recreational Goods	2,800	2,700	2,600	2,600	2,800	2,600	2,500	2,500	2,500
Software	25,400	25,500	25,800	25,800	25,400	25,800	25,700	26,000	25,800
Other Technical Consulting Svcs.	5,700	5,900	6,100	6,800	5,700	6,100	6,100	6,200	6,200

Source: National University System Institute for Policy Research; California Employment Development Department (EDD)

SAN DIEGO COUNTY INDUSTRY EMPLOYMENT BY QUARTER



e: estimated

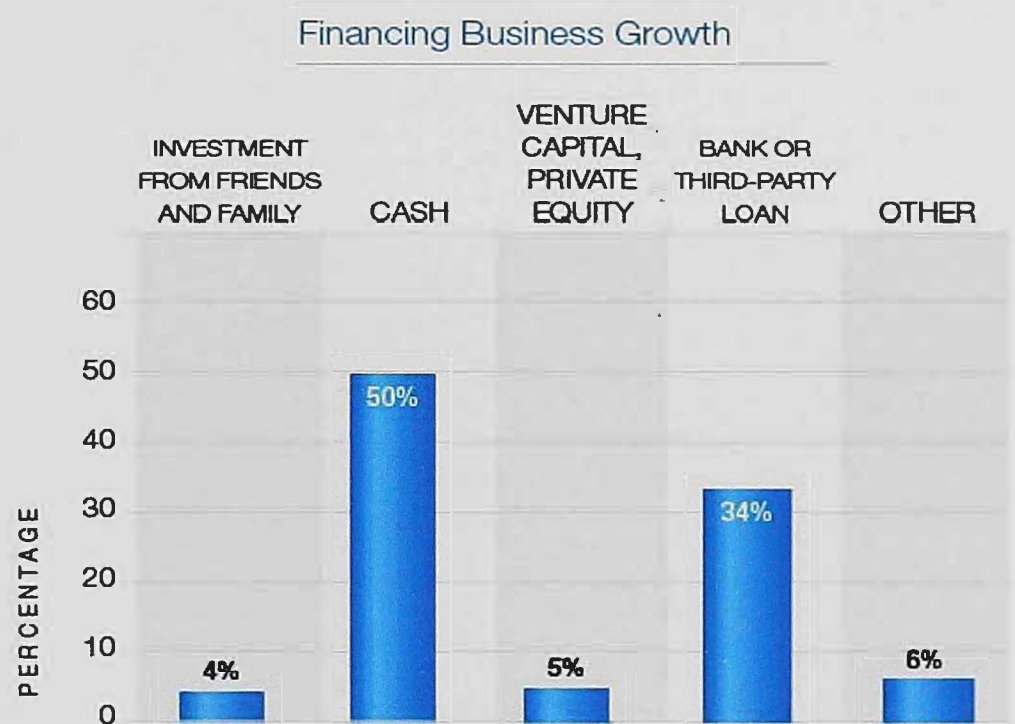
CEO Confidence

New Vistage CEO Confidence Index Shows CEOs' Confidence Up in Q2 2010 but Lowered Expectations for Economy's Pace of Growth

Newly included in this quarter's Innovation Report are the national findings of the Vistage International, Inc. quarterly CEO Confidence Index, a compilation of responses from over 1,600 CEOs of small- to medium-sized companies in the United States, as an ongoing part of the Innovation Report. The Index is the nation's largest and most comprehensive report of their opinions and projections.

Eighty-seven percent of CEOs surveyed believe the federal government does not understand the challenges faced by American businesses well enough to expand business opportunities for small businesses. These CEOs are concerned about increased taxes, regulations and government intrusions that hinder entrepreneurship. Opinion on the effect of the recent Healthcare Reform Bill (The Reconciliation Act of 2010) was mixed – 47% of the CEOs responding felt the legislation made no difference in their businesses, while 36% felt it had a negative impact on their businesses.

The Vistage CEO Confidence Index rose to 94.4 in the second quarter 2010 survey, significantly higher than the 69.0 recorded in the second quarter of 2009 and up slightly from 93.7 in the first quarter of 2010. The Confidence Index rose to its highest level since the first quarter of 2007. While CEOs of small to medium sized businesses have lowered their expectations for the pace of growth in the overall economy, they remain confident that, over the next 12 months, they will increase revenues and profits, as well as hire new employees. CEOs reported that they will finance business growth primarily through cash and bank/third-party loans.



Source: Vistage International

Although 45% of the CEOs responded that they obtaining credit for their business today was just challenging as it was six months ago, only 23% cited access to loan financing as limiting their business growth. This suggests that CEOs are bootstrapping their businesses relying on sales revenue and cash reserves.

Planned declines in employment fell to just 9% in the second quarter of 2010, the lowest level in three years. Plans to expand their workforce were reported by 44% of all CEO's in the second quarter survey, unchanged from the prior quarter. Among all firms, however, 47% expected to keep the overall number of employees constant, up from 44% in the prior quarter and the highest percentage in the past decade.

Growth in revenues was expected by two-thirds of all firms in the second quarter, unchanged from the prior quarter but well above the half of all firms that expected revenue gains a year ago. Rising profits were expected by 54% of all firms in the second quarter of 2010, a level that has remained unchanged over the prior three quarters.

Venture Capital Investment

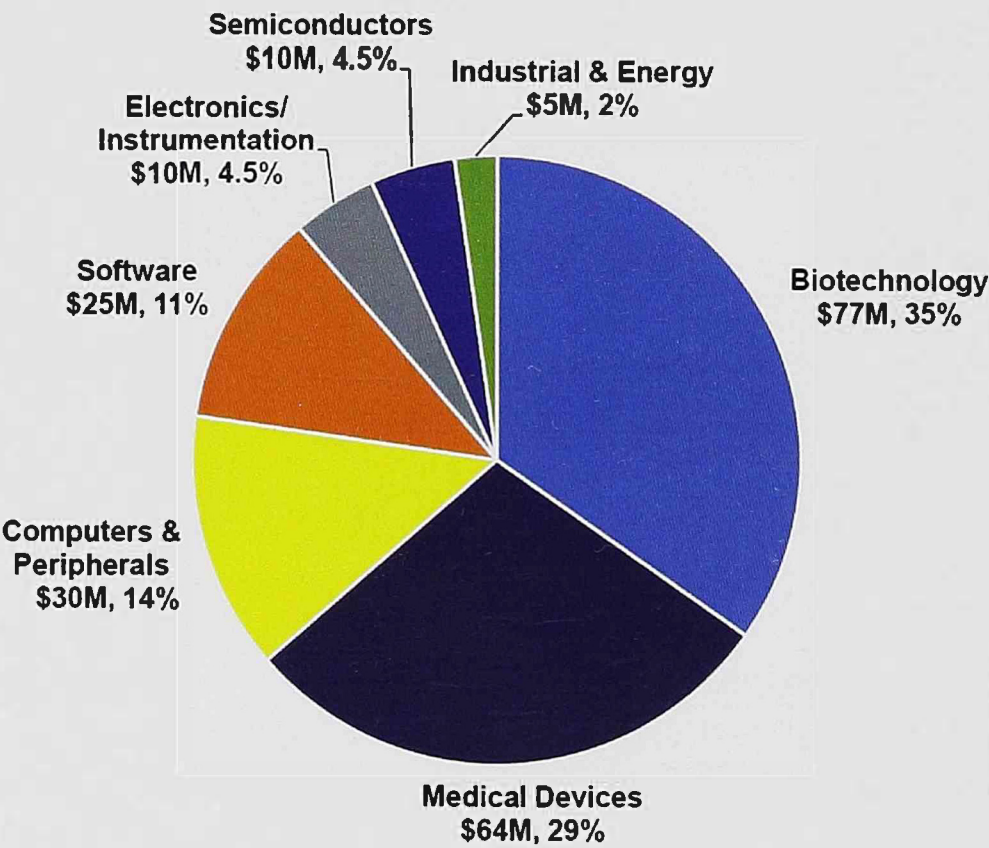
San Diego VC Funding Down More Than 25% in First Quarter, Ranking 7th in Nation, Southern California Ranks 3rd

Although venture capital investment in San Diego was up over 240% from the first quarter of 2009 with 29 local companies receiving \$222 million, investment was down 27% from the \$305 million raised by 31 San Diego companies in the fourth quarter of 2009, according to the most recent PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report. San Diego’s regional ranking also declined from fourth to seventh in the first quarter of 2010. Southern California (San Diego and LA/Orange Counties) ranked third nationally with VC investments of \$686 million for the quarter.

“The first quarter continues to show strong support for the life sciences sector with the overall number of companies receiving funding decreasing by only two from the previous quarter,” commented Bill Molloie, partner at PricewaterhouseCoopers and leader of the San Diego Life Science and Pharma Practice. The life sciences sector received the majority of the financing during the first quarter of 2010 receiving \$141 million or 64% of the total funds invested. This figure is down nine percent from the \$196 million invested in life sciences companies in the fourth quarter of 2009.

The computers and peripherals sector received the second largest investment with one company (PatientSafe Solutions) receiving \$30 million. This was followed by the software sector at \$25 million with five companies funded. The electronics/instrumentation sector was fourth largest in the first quarter of 2010 with five companies receiving \$10.5 million.

**San Diego VC Investments by Industry
Q1 2010**



Source: The MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Financial

The Top 10 VC investments in San Diego Companies – Q1 2010

The three largest investments this quarter accounted for 36% of the total VC funding in San Diego, with the top ten deals accounting for 82%.

Tandem Diabetics	\$31.0 million	Elevation Pharmaceuticals	\$15.0 million
PatientSafe Solutions, Inc	\$30.0 million	EMN8, Inc	\$14.5 million
VentiRx Pharmaceuticals, Inc.	\$25.0 million	Tragara Pharmaceuticals	\$10.0 million
Tioga Pharmaceuticals, Inc.	\$18.0 million	Avaak, Inc.	\$10.0 million
Sotera Wireless, Inc.	\$17.5 million	AwarePoint Corporation	\$10.0 million
Genomatica, Inc.	\$15.0 million		

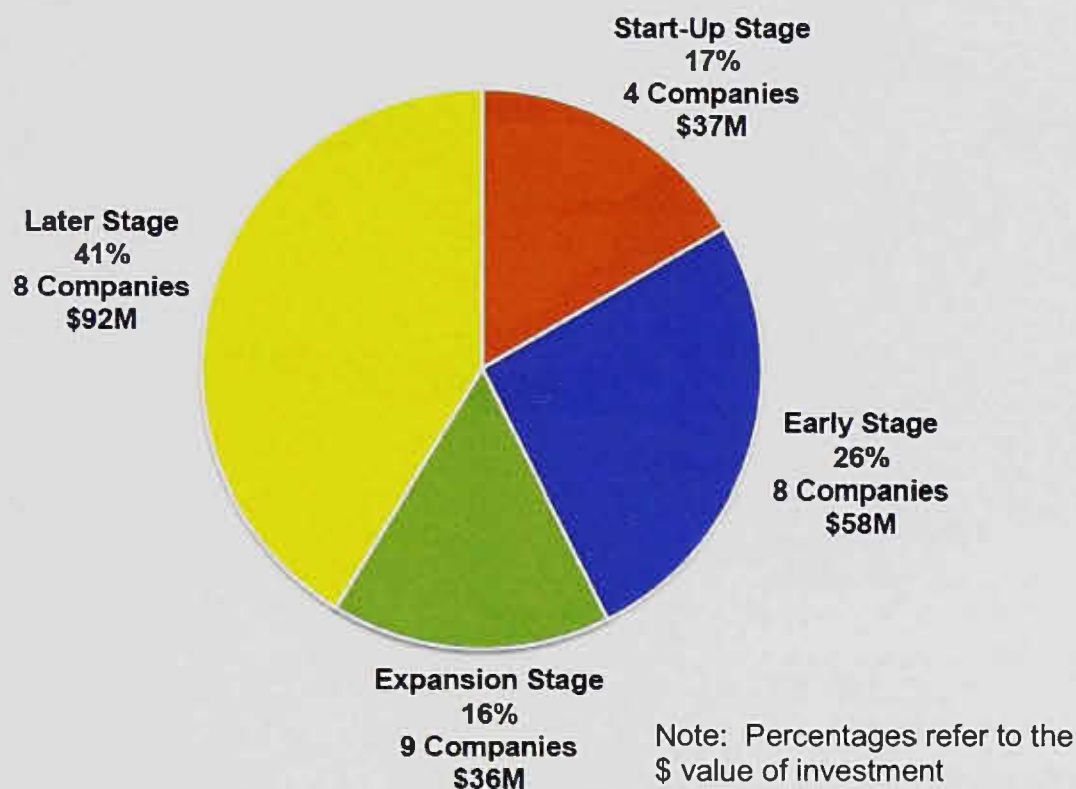
Venture Capital Investment (con't)

VC Funding by Stage of Company Development – First Quarter 2010

San Diego's Early Stage Companies Attract More Than 40% of VC Funding

Of the total VC investment in San Diego in the first quarter, 42% or \$95 million went to start-up/early stage companies – down from 52% in the previous quarter. In San Diego, start-up stage companies received 17% or \$37 million of the total funds invested, and early stage companies received 26% or almost \$60 million in the first quarter of 2010. Financing of later stage companies increased to 41% of the total (\$92 million) compared to 26% in the fourth quarter of 2009. The number of deals in each stage was as follows: start-up stage (four companies), early stage (eight companies), expansion stage (nine companies) and later stage (eight companies).

**San Diego Q1 2010 VC Investments
by Stage of Development**
\$222 million
29 companies



The **Stage of Development** Classifications used in the PwC/NVCA MoneyTree™ Report are as follows:

Start-Up Stage

The initial stage. The company has a concept or product under development, but is probably not fully operational. Usually in existence less than 18 months.

Early Stage

The company has a product or service in testing or pilot production. In some cases, the product may be commercially available. May or may not be generating revenues. Usually in business less than three years.

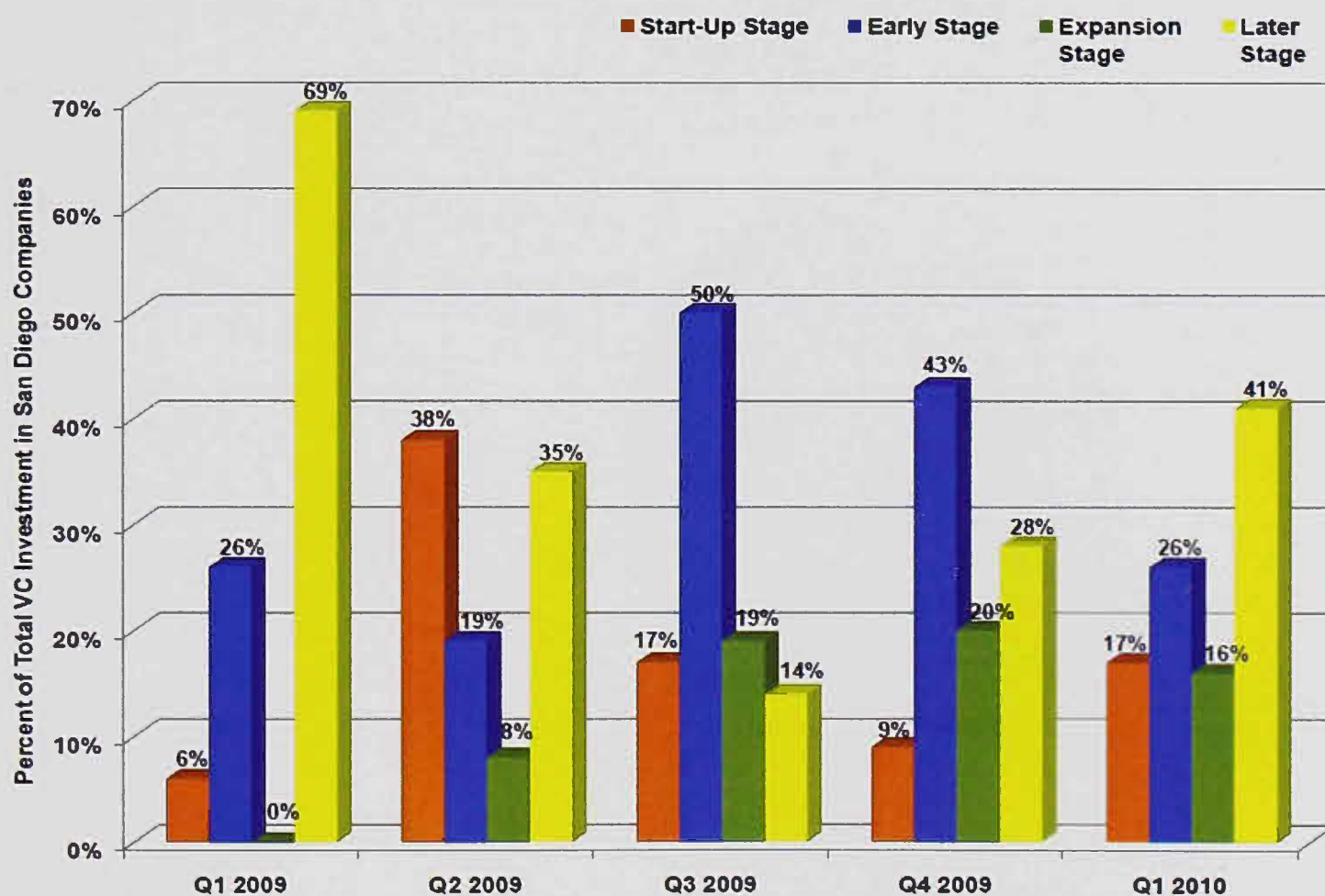
Expansion Stage

Product or service is in production and commercially available. The company demonstrates significant revenue growth, but may or may not be showing a profit. Usually in business more than three years.

Later Stage

Product or service is widely available. Company is generating on-going revenue; probably positive cash flow. Are more likely to be, but not necessarily profitable. May include spin-offs of operating divisions of existing private companies and established private companies.

VC Investment in San Diego Companies by Stage of Development by Quarter



Source:
The MoneyTree™ Report by
PricewaterhouseCoopers and
the National Venture Capital
Association

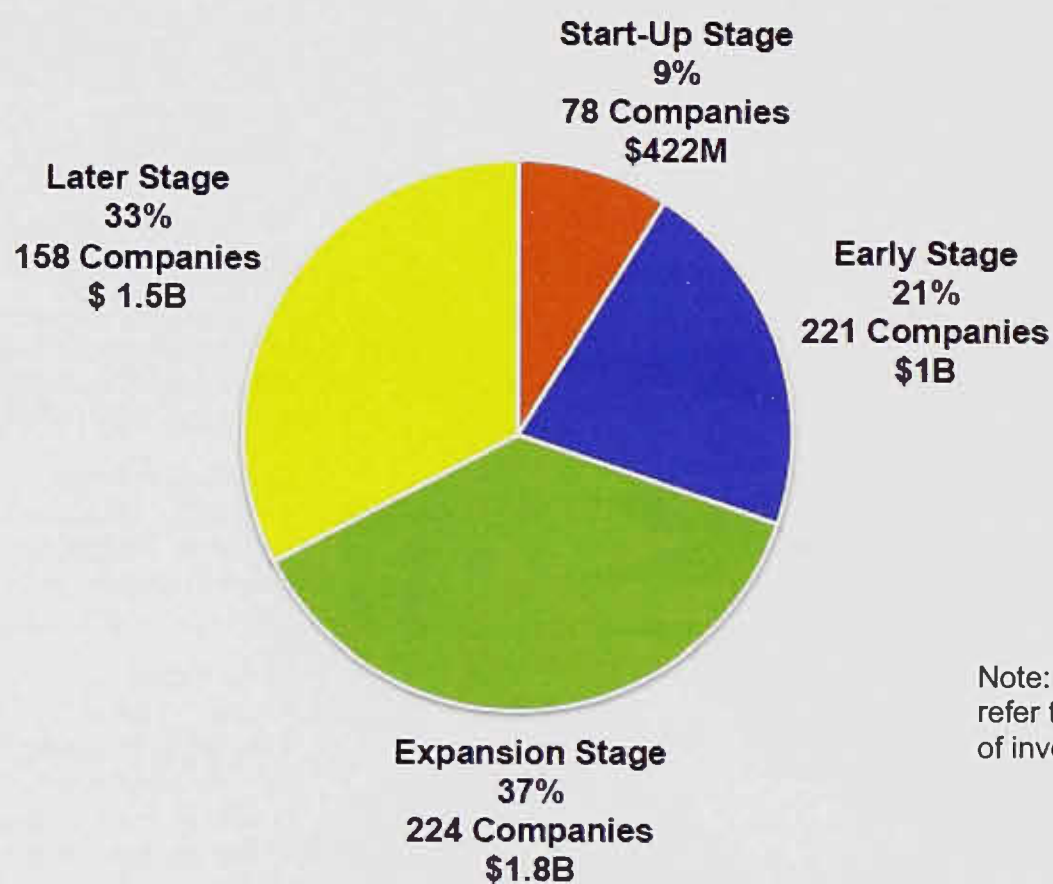
Venture Capital Investment (con't)

Nationally, the distribution of invested capital into start-up and early stage companies experienced a decrease as compared to the prior quarter. During the first quarter, 30% of investments went to start-up and early stage companies, compared to 40% in the prior quarter. However, the investment in expansion stage and later stage companies showed a slight increase as compared to the preceding quarter. During the first quarter of 2010, 37% of invested funds were made in expansion stage companies and 33% in later stage companies. California accounted for \$2.2 billion, or 47%, of the total U.S. venture investment. The majority (75%) of the investments was in expansion and later stage companies.

Total Value of National Q1 2010 VC Investments by Stage of Development

\$4.7 billion

681 companies

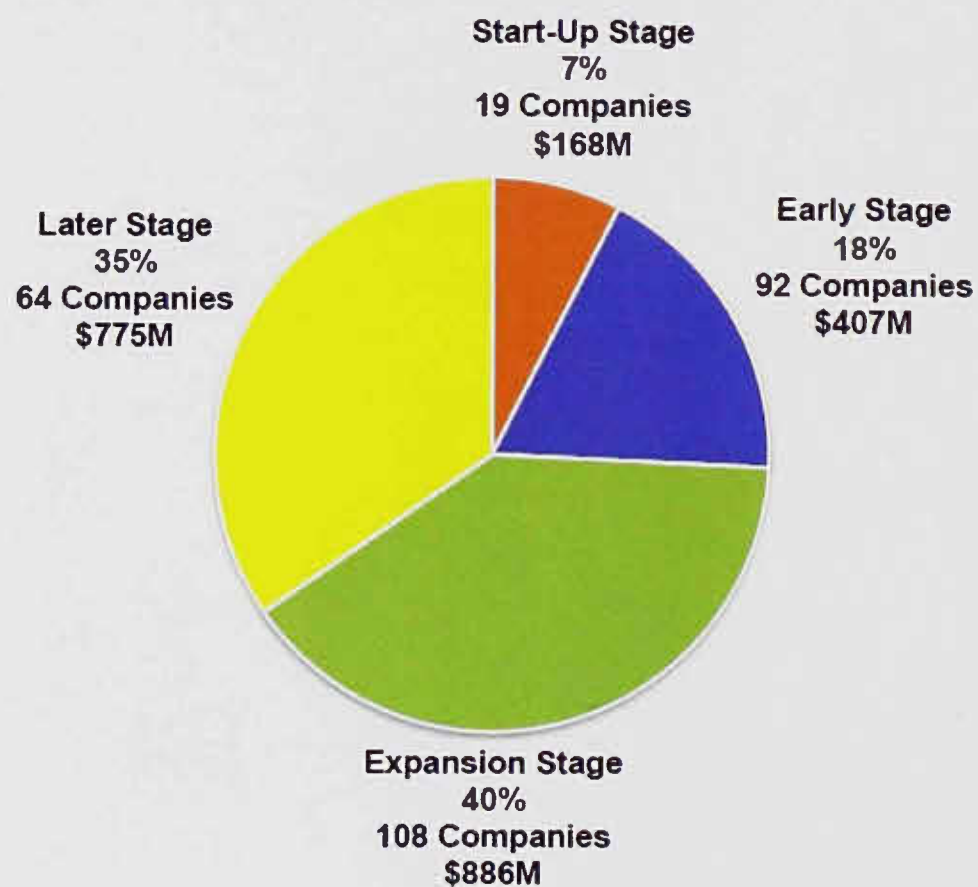


Note: Percentages refer to the \$ value of investment

Total Value of California Q1 2010 VC Investments by Stage of Development

\$2.2 billion

283 companies

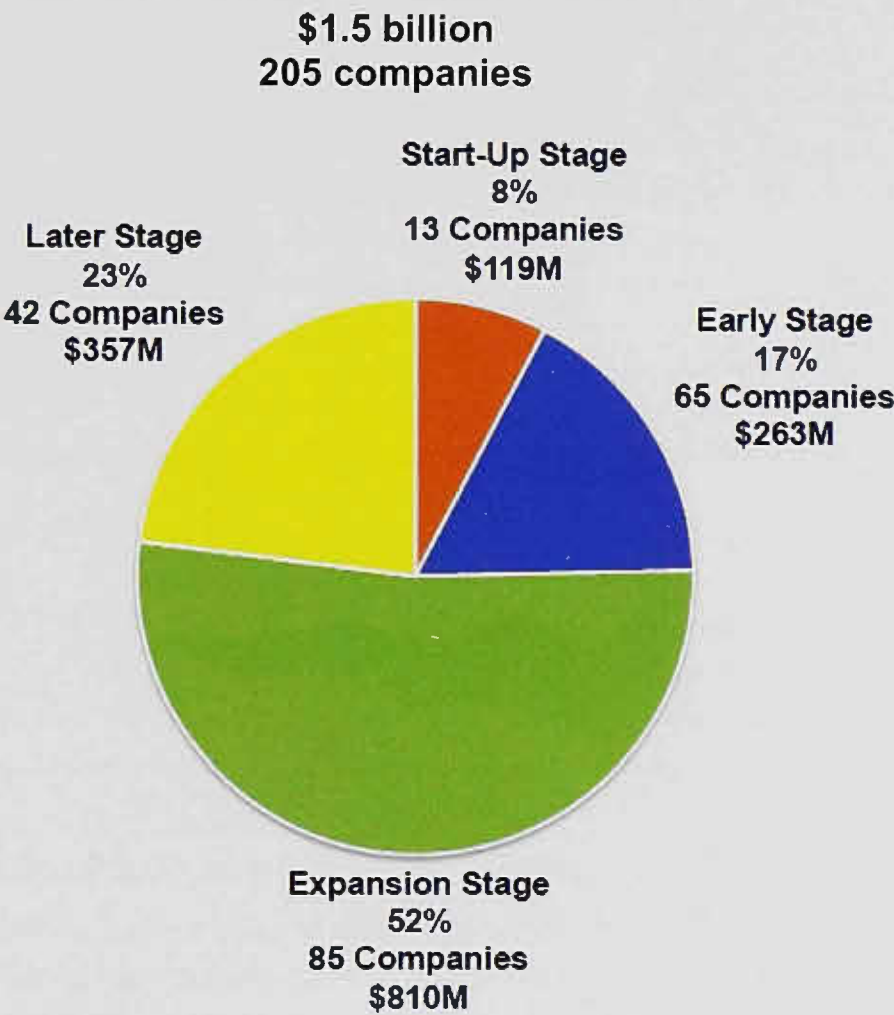


Source:
The MoneyTree™ Report by
PricewaterhouseCoopers and
the National Venture Capital
Association

Venture Capital Investment (con't)

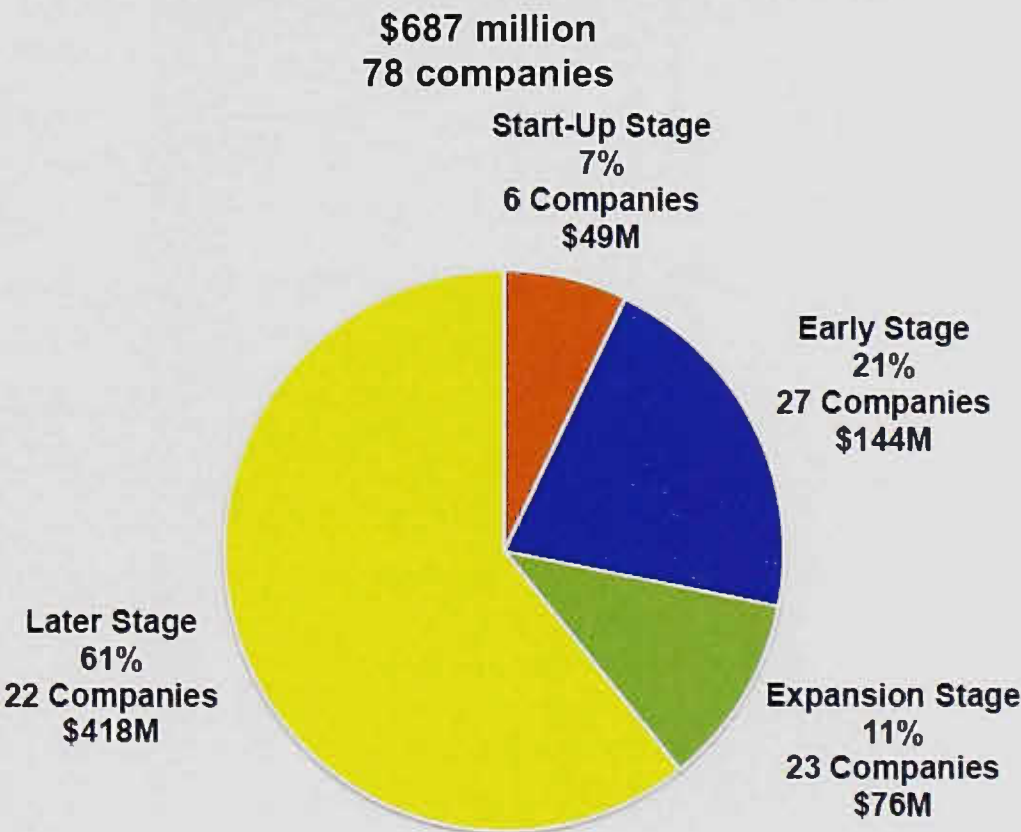
In northern California, 25% of the investment went to start-up and early stage companies totaling over \$375 million invested in 78 companies – down 39% from the fourth quarter. In southern California, 28%, or \$192 million, of the funding went to 33 start-up and early stage companies in the first quarter of 2010 – down 22% from the preceding quarter. Investment in later stage southern California deals jumped to 61% (\$419 million) in the first quarter, up from 31% (\$182 million) in the fourth quarter of 2009. Two large deals accounted for over half of total for later stage investments made in the southern California in the first quarter.

**Total Value of Northern California Q1 2010
VC Investments by Stage of Development**



Note: Percentages refer to the \$ value of investment

**Total Value of Southern California Q1 2010
VC Investments by Stage of Development**



Source:
The MoneyTree™ Report by
PricewaterhouseCoopers and
the National Venture Capital
Association

Venture Capital Investment (con't)

Regional VC Investment Rankings - First Quarter 2010

San Diego Ranked 7th in Nation; Southern California Ranked 3rd

San Diego's first quarter VC investment regional ranking fell from 4th in the preceding quarter, receiving the 7th largest investment of any region, with 5% of the total U.S. investments being made in San Diego, compared to 6% in the fourth quarter of 2009. Investment in the Southern California region (San Diego, LA and Orange Counties) in the first quarter was up 17% over the preceding quarter and \$686 million for the quarter, ranking third nationwide behind Silicon Valley (\$1.5 billion) and New England (\$749 million). The top 10 regions accounted for 95% of the total U.S. VC investment for the quarter.



Rank	Region	VC Investment in Millions	Number of Deals	VC Investment as % of U.S. Total
1	Silicon Valley	\$1,528	202	32%
2	New England	\$749	90	16%
3	NY Metro	\$566	75	12%
4	LA/Orange County	\$464	49	10%
5	Northwest	\$238	33	5%
6	Midwest	\$237	44	5%
7	San Diego	\$222	29	5%
8	DC/Metroplex	\$176	28	4%
9	Southeast	\$175	36	4%
10	Texas	\$130	21	3%
Top 10 Regions		\$4,485	607	95%
UNITED STATES		\$4,727	681	100%

Source: CONNECT; The MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Financial.

Nationally, VC investments were down \$450 million during the first quarter of 2010 compared to the fourth quarter of 2009. In the first quarter of 2010, \$4.7 billion was invested in 681 companies. This total investment represents a decrease of 9% from the previous quarter when \$5.2 billion was invested in 832 companies. However, the first quarter of 2010 was up more than 40% compared to the first quarter of 2009 when \$3.4 billion was invested in 635 companies.

Summary of National and Regional VC Investments

Region		2007 Year	2008 Year	2009 Year	2008 Q1	2009 Q1	2009 Q4	2010 Q1
United States	Total (in Billions)	\$30.5	\$28.0	\$17.7	\$7.7	\$3.4	\$5.2	\$4.7
	# of Deals	4,027	3,985	2,795	1020	635	832	681
	Average (in Millions)	\$7.6	\$7.0	\$6.3	\$7.5	\$5.4	\$6.2	\$6.9
California	Total (in Billions)	\$14.6	\$14.0	\$8.9	\$3.9	\$1.6	\$2.5	\$2.2
	# of Deals	1,663	1,626	1,137	444	258	343	283
	Average (in Millions)	\$8.8	\$8.6	\$7.8	\$8.8	\$6.2	\$7.4	\$7.9
Northern CA	Total (in Billions)	\$11.0	\$10.8	\$7.0	\$3.0	1.3	\$2.0	\$1.5
	# of Deals	1,273	1,251	871	343	201	269	205
	Average (in Millions)	\$8.6	\$8.6	\$8.0	\$8.7	\$6.5	\$7.3	\$7.6
Southern CA	Total (in Billions)	\$3.6	\$3.2	\$1.9	\$1.0	\$0.3	\$0.6	\$0.7
	# of Deals	390	375	266	101	57	74	78
	Average (in Millions)	\$9.3	\$8.5	\$7.0	\$9.4	\$5.6	\$8.0	\$8.8
San Diego	Total (in Billions)	\$1.9	\$1.2	\$0.9	\$0.4	\$0.1	\$0.3	\$0.2
	# of Deals	167	132	107	40	16	31	29
	Average (in Millions)	\$11.6	\$9.0	\$8.4	\$10.6	\$5.8	\$9.8	\$7.7

Northern California includes Silicon Valley and Sacramento.

Southern California includes Los Angeles, Orange and San Diego Counties.

Source: CONNECT; The MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Financial.

Merger and Acquisition and Other Investment Activity

Number of Merger and Acquisition Deals Jump in Q1 2010

The first quarter of 2010 saw the number of M&A deals jump significantly across California. However, the value of reported deals closed was lower. In San Diego, 46 deals were closed in the first quarter compared to 29 deals in the preceding quarter - a 59% increase. San Diego accounted for 13% of the deals reported statewide in the first quarter. The reported deal value of private placement deals was also up across the state in the first quarter of 2010. The reported value of San Diego private placement deals more than doubled in the first quarter to \$132 million from \$61 million in the fourth quarter of 2009.

Regional M&A Deals by Quarter

Region		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Totals	2010 Q1
Northern CA	Total Reported Value (in Millions)	\$4,949	\$1,866	\$2,520	\$17,134	\$26,469	\$17,069
	# of Closed Deals	91	89	155	136	471	195
Southern CA	Total Reported Value (in Millions)	\$6,195	\$1,169	\$1,827	\$3,181	\$12,372	\$19,127
	# of Closed Deals	103	74	134	131	442	153
San Diego	Total Reported Value (in Millions)	\$2,703	\$139	\$99	\$1,250	\$4,191	\$845
	# of Closed Deals	42	24	32	29	127	46

Private Placement Investments in San Diego Companies Doubled in Q1 2010

In the first quarter of 2010, three San Diego companies closed deals totaling over \$113 million through private placement investments – up more than 85% from the \$61 million raised in the fourth quarter of 2009. Three other San Diego companies made definitive agreements for an additional total of nearly \$19 million. Southern California (including San Diego) companies issued more than 50% of the PIPE private placements statewide totaling \$740 million in the first quarter – up nearly 16% from the \$639 million in the fourth quarter of 2009. In northern California, 20 companies closed private placement deals totaling over \$440 million, and four additional companies made definitive agreements to raise over \$80 million. Overall, first quarter PIPE investments in California were up 32% over the previous quarter with 43 deals totaling nearly \$1.4 billion.

Private placements (often structured as PIPE transactions – *see sidebar*) are an alternative way for public companies to raise capital, and are usually considered a good sign for a public company. They convey that the private placement investors believe in a company's prospects for the long term and are willing to take on market risk with their investment.

*PIPE stands for **P**rivate **I**nterest in **P**ublic **E**quities. PIPE transactions are also referred to as **private placements** or **direct placements** in public companies. PIPE transactions are privately negotiated sales of companies' securities to individual accredited investors or institutional funds. Small and mid-size public companies often use PIPE financing because they can obtain capital from a PIPE transaction faster and cheaper than in a public offering. Especially over the past couple of years, as the markets have remained relatively closed to secondary financing, PIPEs have emerged as a stable and sustained source of equity capital for public companies of all sizes.*

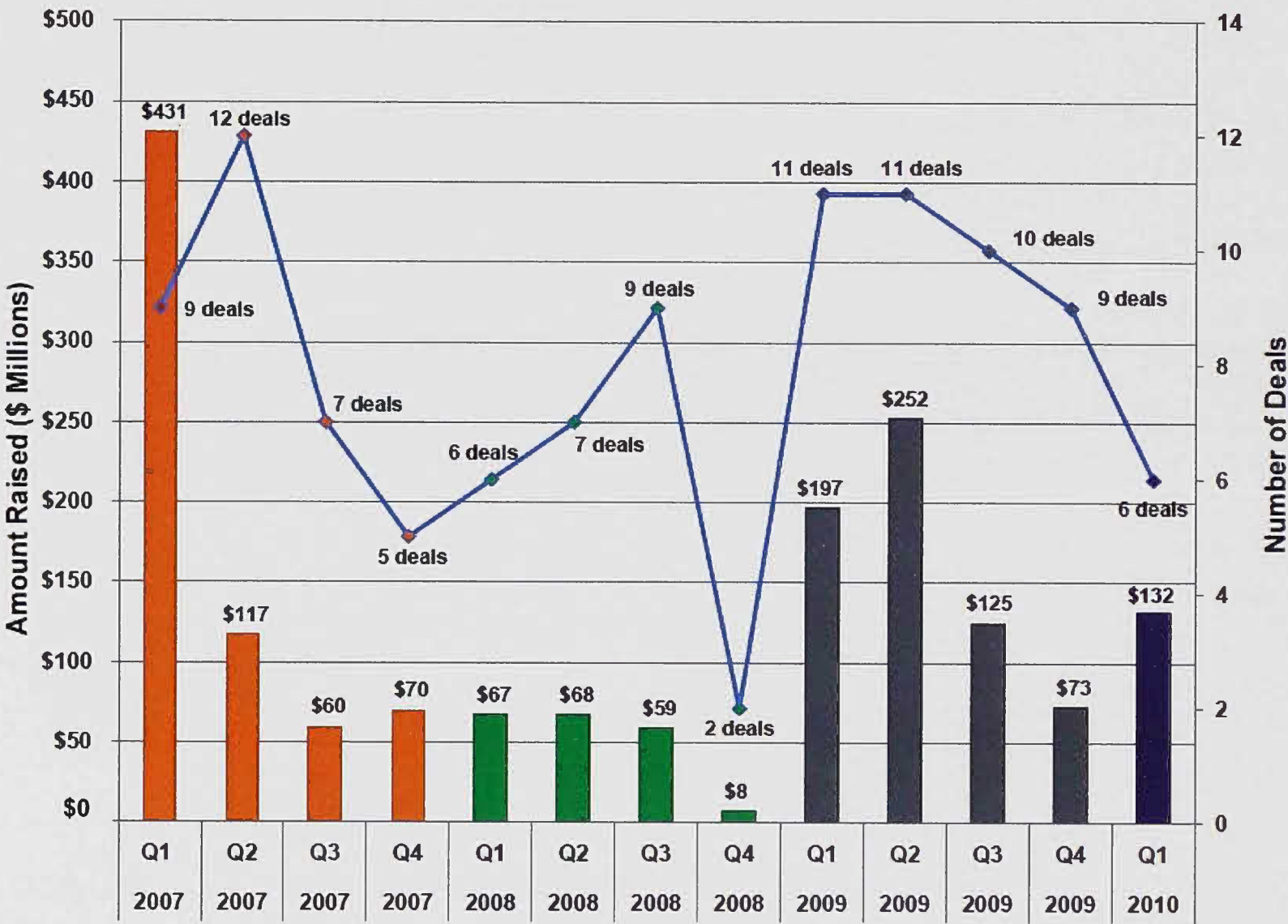
Private Placements by Region – PIPE Transactions by Quarter Funded Deals and Definitive Agreements

Region		2009 Q4	2010 Q1
Northern CA	Total Reported Gross Proceeds (in Millions)	\$352	\$522
	# of Closed Deals	17	24
Southern CA	Total Reported Value (in Millions)	\$639	\$740
	# of Closed Deals	23	13
San Diego	Total Reported Value (in Millions)	\$61	\$132
	# of Closed Deals	9	6
California	Total Reported Value (in Millions)	\$1,052	\$1,393
	# of Closed Deals	49	43

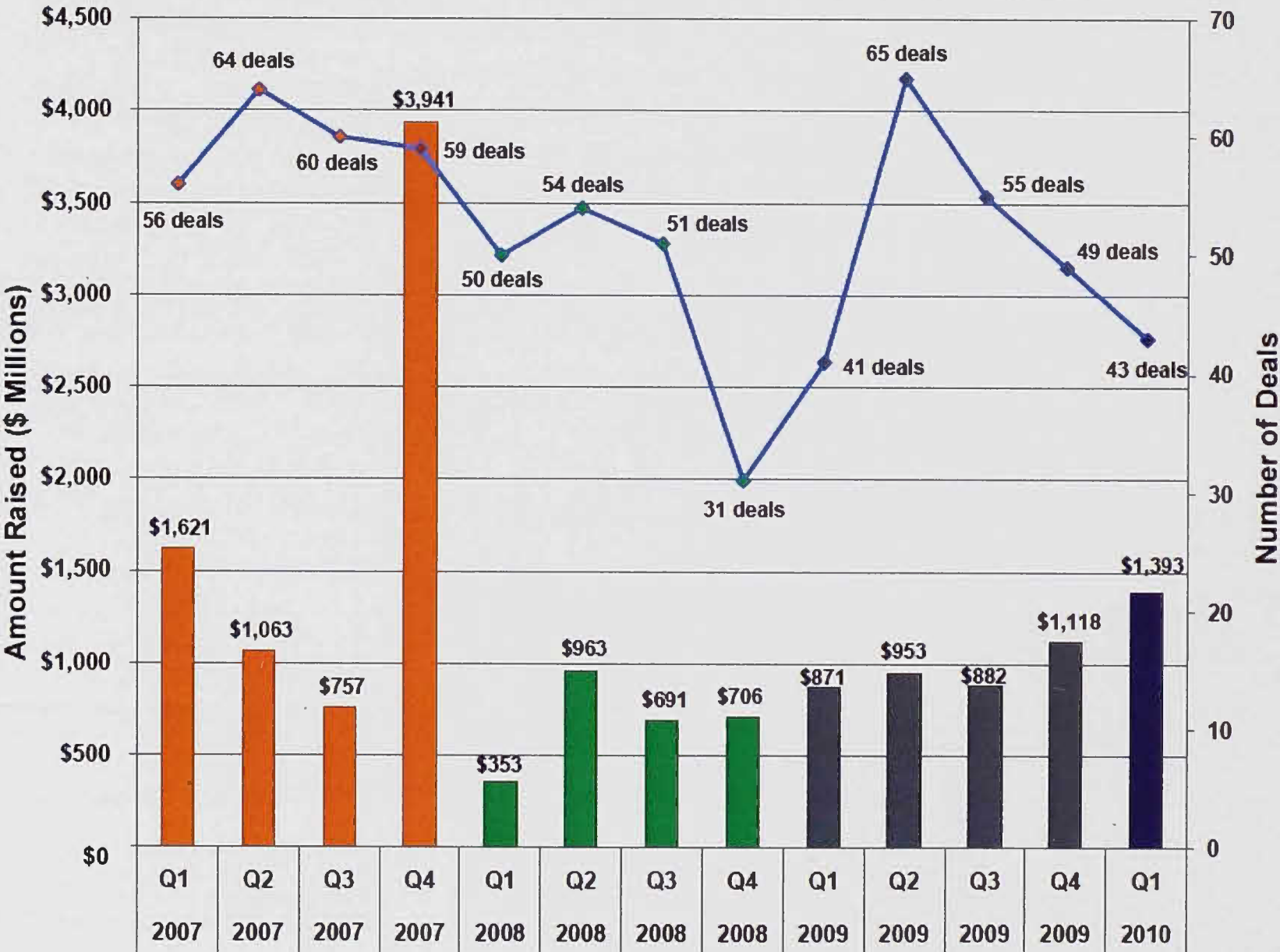
Source: Sagient Research
Systems (PlacementTracker);
Roth Capital Partners; CONNECT

M&A and Other Investment Activity (con't)

San Diego Private Placements – PIPE Transactions: Q1 2007 to Q1 2010



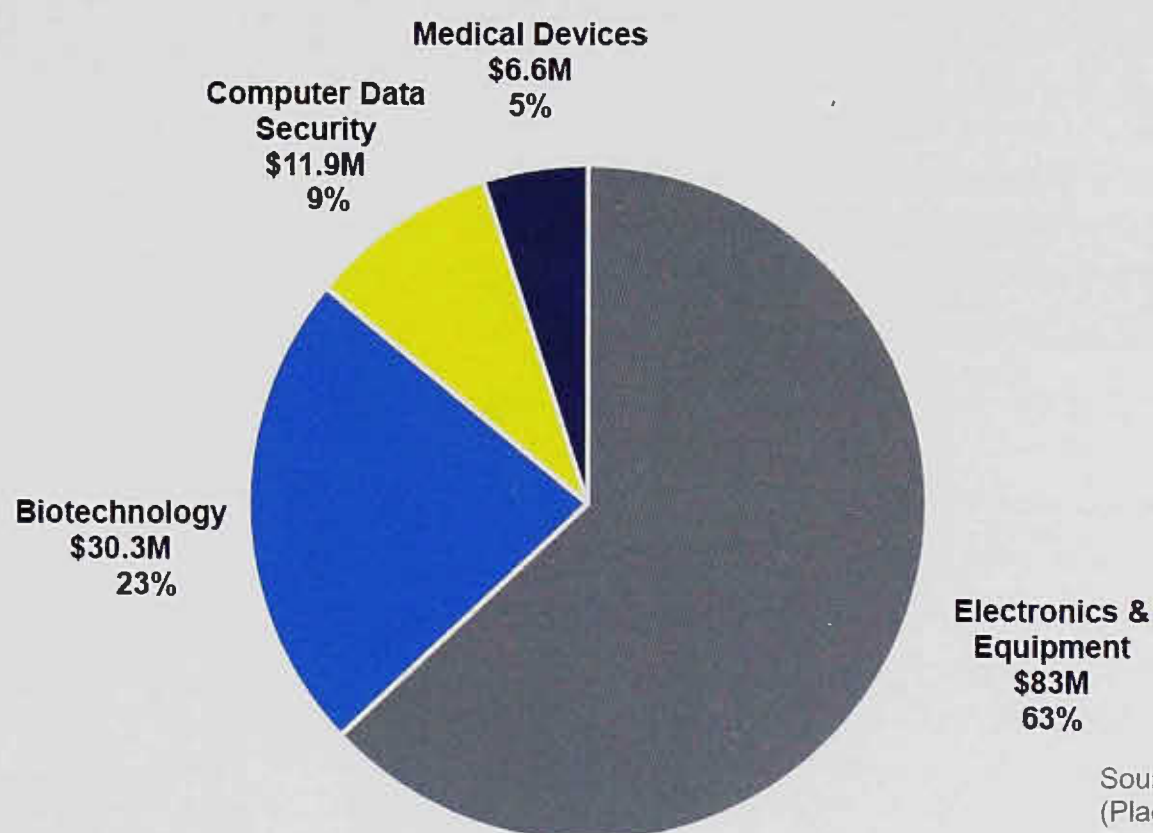
California Private Placements – PIPE Transactions: Q1 2007 – Q1 2010



Source: Sagient Research Systems (PlacementTracker); Roth Capital Partners; CONNECT

M&A and Other Investment Activity (con't)

San Diego PIPE Private Placements by Industry – Q1 2010



Source: Sagient Research Systems (PlacementTracker);
Roth Capital Partners; CONNECT

In the first quarter of 2010, the majority of the PIPE investments in San Diego were made in the electronics equipment and life science sectors. A single electronic component manufacturer raised \$83 million. Four companies in the biotech and medical devices sectors raised a total of nearly \$37 million in PIPE placements. PIPE investment in other sectors included a computer data security deal with \$11.9 million.

California Companies Raise Over \$3 Billion in Public Equity Offerings in Q1 2010

Seven California companies raised nearly \$792 million through their Initial Public Offerings (IPOs) in the first quarter of 2010. This was an increase of 28% over the amount raised by three California companies in the fourth quarter of 2009. Carlsbad-based semiconductor chip-maker, MaxLinear Inc., raised nearly \$92 million from its March 24 public offering. Before going public, MaxLinear raised about \$35 million in venture capital, but only spent approximately half of those funds. The company had a reported \$17.9 million in cash at the end of 2009.

According to a quarterly survey of all IPOs on US exchanges from PricewaterhouseCoopers' Transaction Services Practice, first quarter 2010 U.S. IPO deal activity represented a significant increase over the same period last year. There were 27 deals completed in the first quarter, which raised \$4.1 billion, compared with two deals that raised \$700 million in Q1 2009.

California IPOs – Q1 2010

Company	Industry Sector	Reported Deal Value (in \$M)	City	Region
Terreno Realty Corp.	Real Estate/Property-REIT	\$175.0	San Francisco	Northern CA
QuinStreet Inc.	Professional Services-Advertising/Marketing	\$150.0	Foster City	Northern CA
Financial Engines Inc.	Finance-Investment Management	\$146.3	Palo Alto	Northern CA
MaxLinear Inc.	Computers & Electronics-Semiconductors	\$92.0	Carlsbad	Southern CA
Calix Inc.	Computers & Electronics-Services	\$94.6	Petaluma	Northern CA
Meru Networks Inc.	Computers & Electronics-Peripherals	\$75.7	Sunnyvale	Northern CA
Anthera Pharmaceuticals Inc.	Healthcare-Drugs/Pharmaceuticals	\$46.2	San Mateo	Northern CA
Total Reported Deal Value - California IPOs		\$779.8		

Source: Sagient Research Systems (PlacementTracker);
Roth Capital Partners;
CONNECT

M&A and Other Investment Activity (con't)

The underwritten follow-on offering market saw 38 California companies raising nearly \$2.5 billion in proceeds from the sale of additional share offerings to investors. This was a decrease of nearly 80% over the \$12.2 billion raised in the fourth quarter by California companies. Six San Diego companies raised over \$204 million in follow-on equity capital in the first quarter of 2010.

California Underwritten Follow-On Offerings - Q1 2010

Region	Reported Deal Value (in \$M)	# of Deals
San Diego*	\$204.9	8
Southern California	\$932.7	15
Northern California	\$1,358.6	15
Total California	\$2,496.2	38

*San Diego Underwritten Follow-On Offerings - Q1 2010

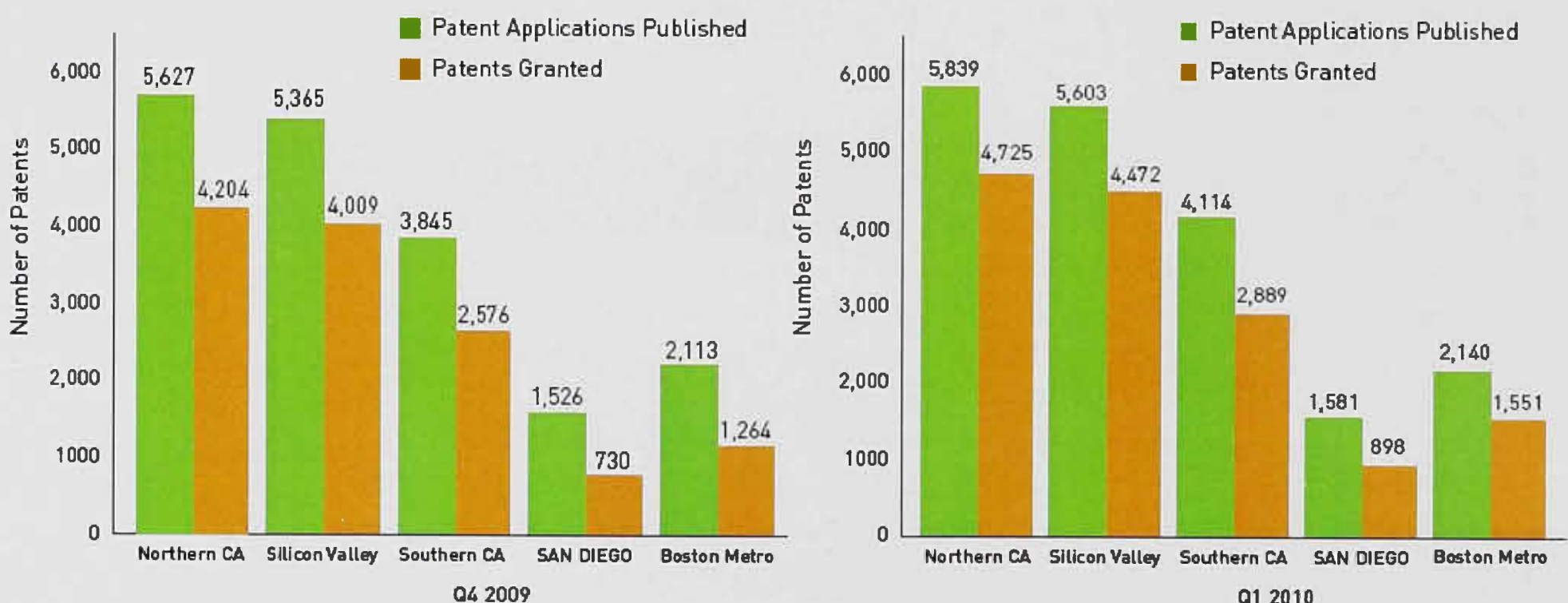
Company	Industry Sector	Reported Deal Value (in \$M)
Somaxon Pharmaceuticals Inc	Healthcare-Drugs/Pharmaceuticals	\$56.9
Optimer Pharmaceuticals Inc	Healthcare-Biomed/Genetics	\$53.8
DexCom Inc	Healthcare-Instruments	\$35.2
Neurocrine Biosciences Inc	Healthcare-Biomed/Genetics	\$23.0
Senomyx Inc	Healthcare-Biomed/Genetics	\$20.0
BofI Holding Inc	Finance-Commercial & Savings Banks	\$15.9
Arena Pharmaceuticals Inc	Healthcare-Drugs/Pharmaceuticals	NA
Cardium Therapeutics Inc	Healthcare-Biomed/Genetics	NA
Total San Diego		\$204.8

Source: Sagient Research Systems (PlacementTracker);
Roth Capital Partners;
PricewaterhouseCoopers; CONNECT

Patent Activity in San Diego, California and Boston Metro Regions – Q1 2010

In San Diego, patent applications were up 6% in the fourth quarter with 1,526 applications filed compared to 1,445 in the third quarter. San Diego accounted for 16% of the patents filed in California in the fourth quarter, and 11% of the patents granted. In San Diego, 730 patents were granted in the fourth quarter of 2009, down 8% from the previous quarter when 791 patents were granted. 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.

Patent Applications Submitted and Granted by Region

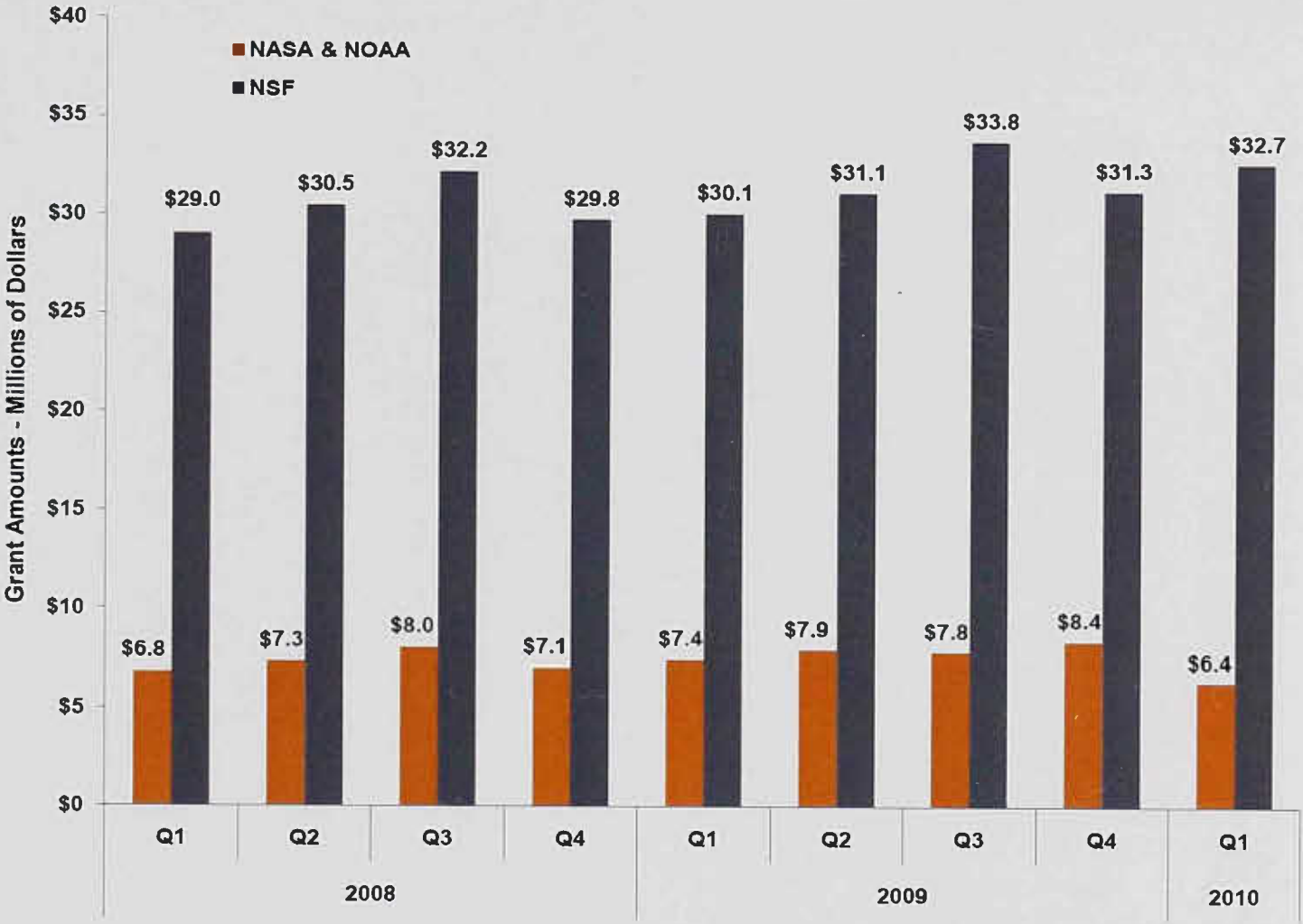


Federal Research Grants: San Diego, California and Boston Metro Regions

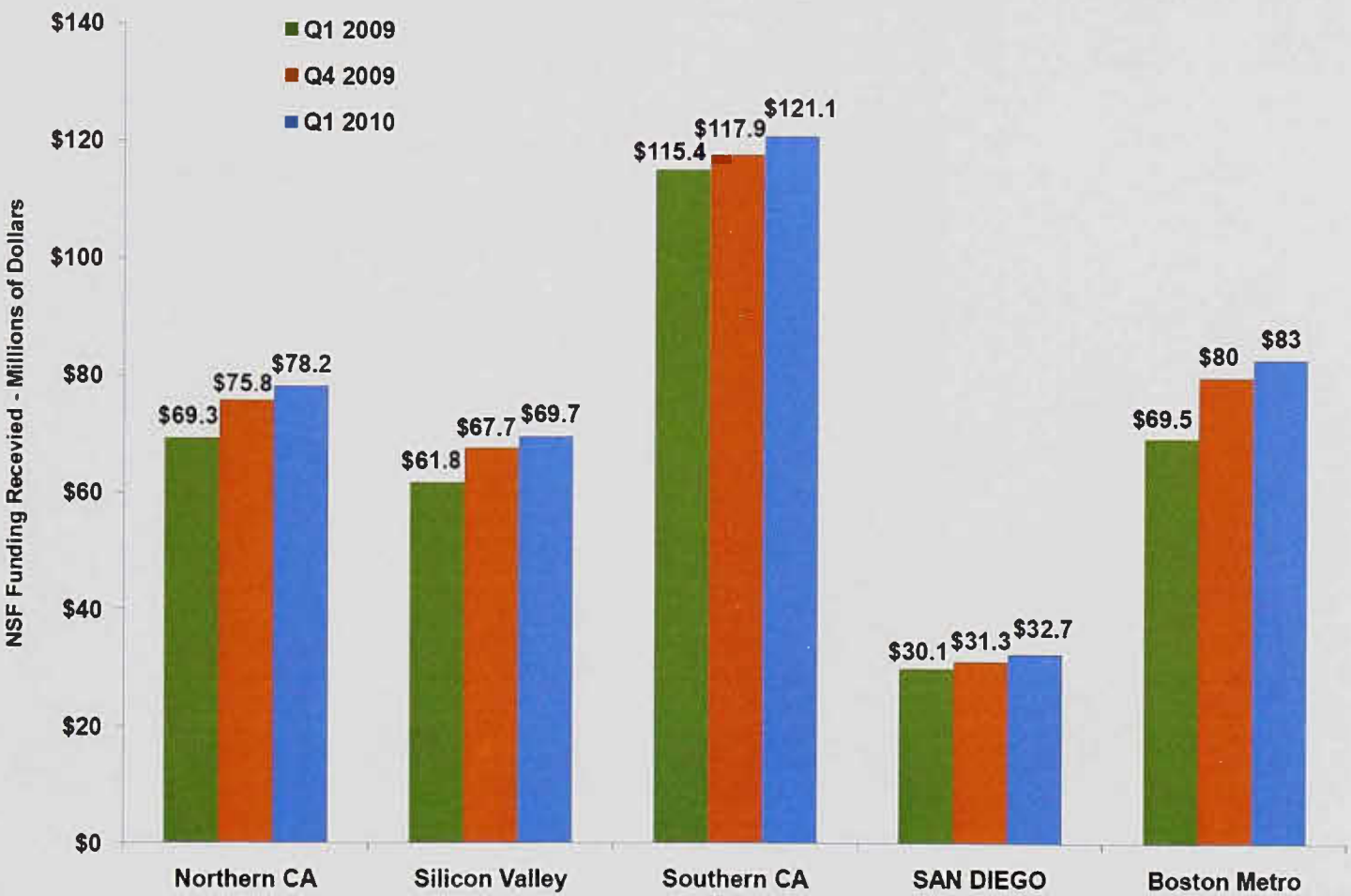
Southern California Leads U.S. in NSF Funding in First Quarter 2010

The National Science Foundation (NSF) reported nearly \$33 million in grants awarded in San Diego in the first quarter of 2010 – an increase of 9% over the amount awarded in the first quarter of 2009 and 4% over the fourth quarter of 2009. Southern California lead the nation in NSF funding received with over \$120 million awarded in the first quarter of 2010. This represents a 3% increase over the fourth quarter and a 5% increase over the first quarter of 2009. Research grants from the National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA) to San Diego organizations were down 24% with a combined total of \$6.4 million in the first quarter.

Federal Research Grants Received in San Diego – NSF, NASA and NOAA



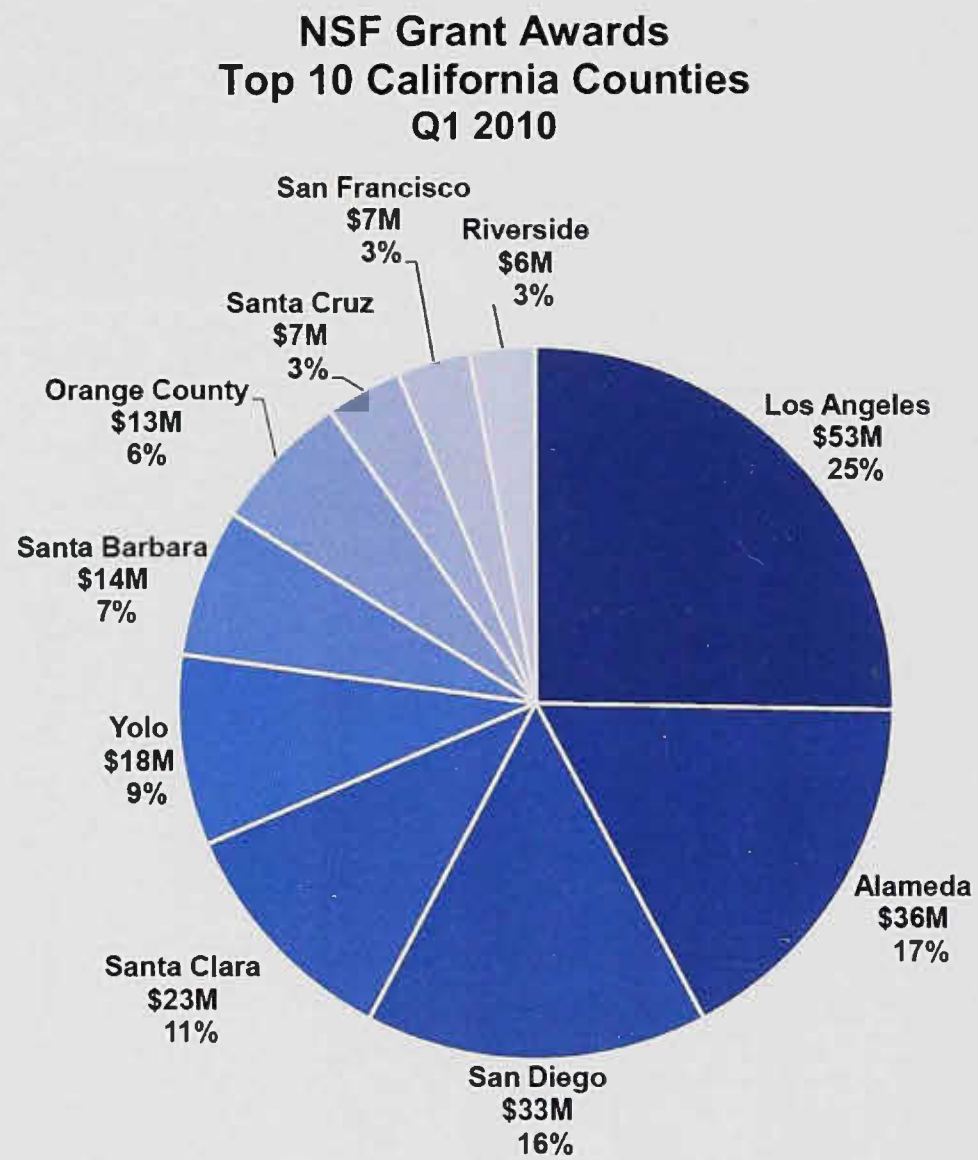
NSF Funding Received - San Diego and Selected Regions



Source: NSF; NASA; NOAA;
UC San Diego Extension; CONNECT

Federal Research Grants: San Diego, California and Boston Metro Regions (con't)

Los Angeles County received one quarter of California’s NSF funding in the first quarter of 2010 with \$53 million. Alameda County followed with \$36 million and San Diego County ranked third with \$33 million.



Source: NSF; NASA; UC San Diego Extension; CONNECT

NASA Funding Received - San Diego and Selected Regions



Research Organization Employment and Wages

San Diego Private Research Organizations’ Wages Significantly Lower than in Northern California

Average weekly wages of San Diego private research organizations’ employees fell over 9% in the third quarter of 2009 according to the most recently available data from the U.S. Bureau of Labor Statistics. Average weekly wages in San Diego were 22% lower than the average in northern California, and northern California had over 54,000 employees in the third quarter compared to nearly 50,000 in the southern California region. San Diego private research institutes employed approximately 23,200 employees in the third quarter – down slightly from nearly 23,500 in the second quarter of 2009.

Regional Private Research Organizations’ Average Employment & Wages



Source: Quarterly Census of Employment, U.S. Bureau of Labor Statistics; UC San Diego Extension

The CONNECT Innovation Report -- Contact Information

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CONNECT is a nonprofit organization dedicated to creating and sustaining the growth of innovative technology and life science businesses in San Diego. Since 1985, CONNECT has assisted in the formation and development of over 2,000 companies and is widely regarded as the world's most successful regional program linking inventors and entrepreneurs with the resources they need for success. CONNECT focuses on research institution support, business creation and development, entrepreneurial learning, access to capital, public policy advocacy, awards, recognition and networking. Nearly 40 countries and regions have adopted the CONNECT model, including the U.K., Sweden, Norway, Denmark, Australia and most recently, New York City. For more information, please visit www.connect.org.



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