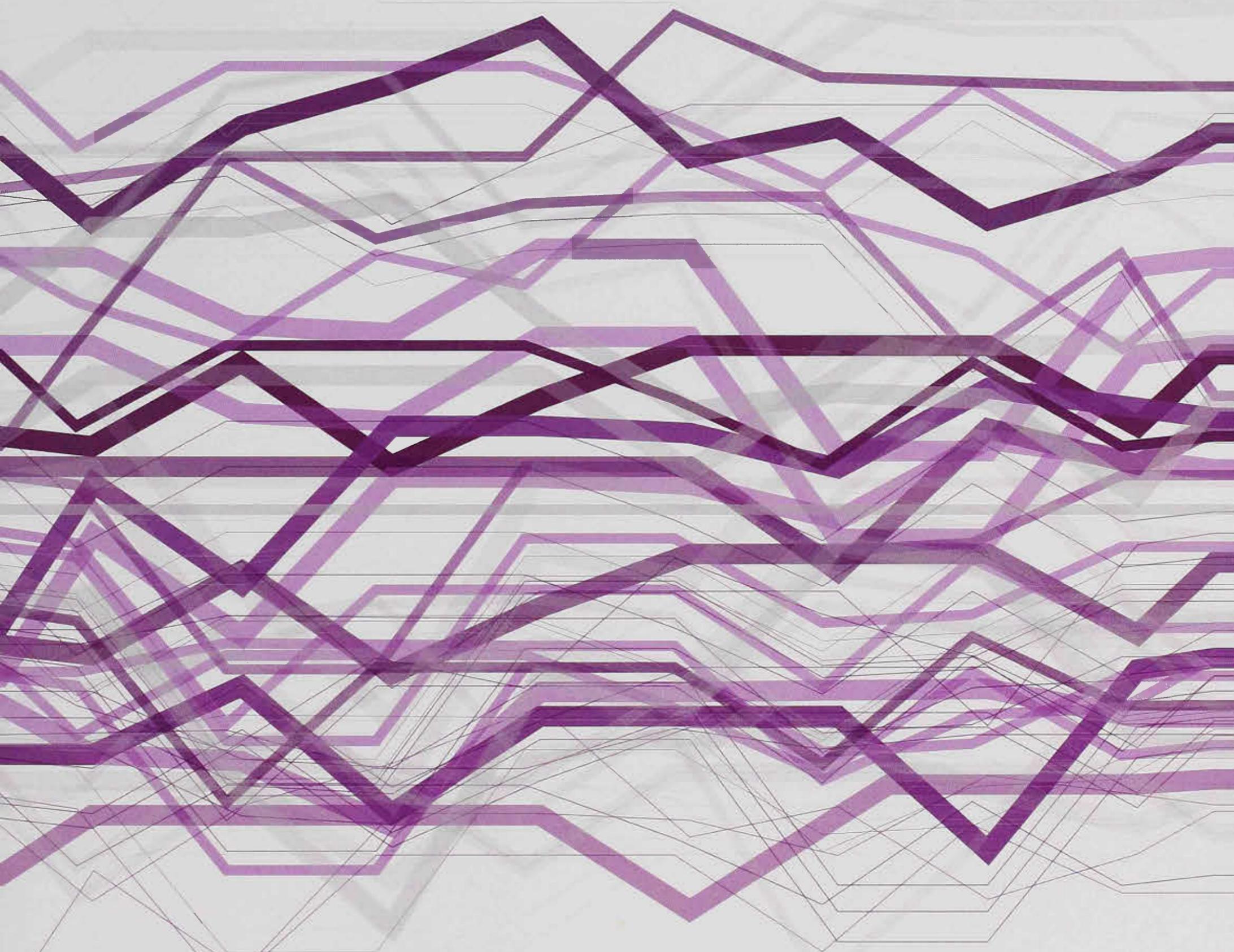


# CONNECT INNOVATION REPORT

EXECUTIVE SUMMARY  
FOURTH QUARTER 2010



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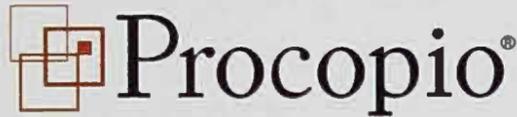
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**SAN DIEGO BUSINESS JOURNAL**

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](http://www.connect.org).

## INTRODUCTION

The **CONNECT Innovation Report (CIR)** is the first comprehensive quarterly report in the country to provide an economic indicator of the strength and impact of the innovation economy. Published by **CONNECT**, San Diego's technology and life sciences accelerator, the Report compares San Diego, California and selected regions, 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;
- Public policy brief focused on the innovation economy;
- Venture capital investment across the U.S., California and San Diego;
- Merger and acquisition activity across California and San Diego;
- Private placement investment in California and San Diego;
- Initial and follow-on public equity offerings in California and San Diego;
- Patent activity in San Diego, California and Boston Metro region;
- Federal research grants in San Diego and California; 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 across tech industry clusters to selected regions and monitoring availability of various types of capital. The data helps policymakers and trade organizations plan and advocate effectively for our innovation economy including availability of visas and workforce training for talent in high growth clusters, building an attractive environment for capital investment, allocation of grant funding, reform of the patent system, and zoning. The Report also highlights San Diego as a world leader in innovation with world-class research, leadership and management talent.

### CONNECT Innovation Report Steering Committee

Steve Hoey	Project Leader, Innovation Report	CONNECT
Erik Bruvold	President	National University System Institute for Policy Research
Kelly Cunningham	Senior Fellow and Economist	National University System Institute for Policy Research
Jim Ingraham	Partner	PricewaterhouseCoopers LLP
Bill Molloie	Partner	PricewaterhouseCoopers LLP
Gary Moss	Labor Market Intelligence Specialist	San Diego Workforce Partnership
James Perkins	Chief Operating Officer	Procopio, Cory, Hargreaves & Savitch LLP
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Duane Roth	Chief Executive Officer	CONNECT
Pam Slater-Price	Supervisor	County of San Diego
Ted Roth	Managing Director	ROTH Capital Partners
Camille Sobrian Saltman	President and Chief Operating Officer	CONNECT
Peter Thomas	Director	UC San Diego Extension
Chaitan Baru	Director, Science R&D	San Diego Supercomputer Center
Kai Lin	Programmer Analyst	San Diego Supercomputer Center
Sundari Baru	Programmer Analyst	San Diego Supercomputer Center
Thanks to: Parrish Silva	Analyst	CONNECT Innovation Report Volunteer

**PRESS RELEASE**

March 28, 2011

**New CONNECT Innovation Report indicates start-up activity down by 13% in 2010****San Diego leads state in patent activity growth and federal research funding per capita;  
start-ups attract only 1% of VC investment**

The CONNECT fourth quarter 2010 Innovation Report released today shows that San Diego's start-up rate for tech companies dropped 13% and venture capital (VC) funding hit a seven year low, down more than 50% from pre-recession levels. In the last quarter of 2010, San Diego start-ups attracted only 1% of VC investment.

"The rally in tech firm startups apparent in the previous quarters of 2010 appeared to have sputtered somewhat in the final quarter. Nevertheless the 84 start-ups during the 4th quarter were above the quarterly average observed over the past six years," said Kelly Cunningham, Economist and Senior Fellow at the National University System Institute for Policy Research. "As the U.S. economy is anticipated to slowly grow in 2011, tech start-ups in San Diego can be expected to increase so long as funding investment and growth opportunities are made apparent." Cunningham provides the Report's economic analysis.

Overall, almost 200 jobs were created by San Diego's new tech companies in the fourth quarter of 2010 and more than 930 for the full year 2010. Throughout 2010, the software sector created 243 jobs, while the life sciences sector led the pack with 303 jobs. In the computer and electronics sector there was a substantial jump year-on-year to 150 jobs. The communications sector added almost 120 jobs and the environmental tech sector created 64 new jobs during the year. Overall, tech start-up employment was down 13% from 2009.

Data from the PricewaterhouseCoopers/National Venture Capital Association Moneytree™ Q4 2010 report showed a shift in investment dollars going from expansion stage companies to later stage companies. Later stage companies received almost 60% of the total VC investment in San Diego, up from just over 30% in the third quarter. The tight VC market has heightened CONNECT's efforts to make additional sources of capital available to early stage tech companies.

CONNECT has formally endorsed the bill introduced by San Diego Congressman Brian Bilbray - bill H.R. 1036 - The Job Creation and Innovation Investment Act of 2011. The goal of the bill is to temporarily reduce the corporate tax on foreign assets in order to draw capital back to the U.S. to help the economy and start-up companies searching for capital to make it through the "Valley of Death" - the period of time from when a start-up company receives an initial capital investment to when it establishes customer traction in the market generating significant sales revenues. During this period, additional financing is usually scarce, leaving the firm vulnerable to cash flow requirements. The bill would reduce the tax rate from 35% to 0% if repatriated funds are directed to R&D, proof of concept centers and early stage venture capital investment or manufacturing start-up costs including contract manufacturing.

"San Diego is one of the nation's leading innovation hubs developing life saving therapies, cleantech solutions to long term energy needs as well as advances in wireless communications technologies and cyber security. It is critical that we develop ways to make more capital available to early stage and growth companies," said Steve Hoey, Innovation Report project leader and senior manager at CONNECT.

San Diego was among the top innovation economies in California based on the amount of federal grant funding per capita received from the National Institutes of Health (NIH) and the National Science Foundation (NSF) in 2010. San Diego's NIH and NSF funding per capita totaled more than \$42 million per capita compared to almost \$20 million per capita in Silicon Valley.

**PRESS RELEASE (CONT'D)**

New data from the Department of Defense shows San Diego innovation companies received almost \$32 million in Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) program grants in 2010. Through these two competitive programs, the U.S. Small Business Administration (SBA) Office of Technology ensures that the nation's small, high-tech, innovative businesses are a significant part of the federal government's defense technology research and development efforts.

When measuring the number of patents published and granted per 100,000 residents over the past three years in San Diego, the county continues to lead the Southern California region. San Diego also shows higher year-to-year growth in the number of patents published and granted between 2008 and 2010 compared to other California regions and the East Coast innovation hub Boston. "Our data show that patent density and growth serve as good barometers of the level and pace of innovation in the San Diego region," says Hoey. Over the past three years in San Diego, the number of patents published increased by more than 12% and the number of patents granted jumped by more than 45%.

Company merger and acquisition activity jumped substantially as well across California in 2010 compared to the previous year. The value of reported San Diego deals closed in the fourth quarter of 2010 was almost \$1.7 billion, and almost \$4 billion for the year – more than double the value and number of deals reported in 2009. In Southern California, the M&A market in 2010 totaled more than \$40 billion – almost seven times more than reported in 2009 and up almost 60% in Q4 2010 from the previous quarter.

"Overall, these statistics are a clear indication that San Diego is a leading hub of innovation. That is something we in the San Diego community must continue to nurture and support," said Richard Campbell, partner at Procopio, Cory, Hargreaves & Savitch LLP, a founding sponsor of the CONNECT Innovation Report.

The Innovation Report shows that San Diego's tech sector represents only six percent of employers and just over 11% of all jobs in the county at almost 138,000. However, tech employment accounts for over 25% of all wages and pays almost 95% more than the overall average industry wage. Tech employment overall decreased about 2% over the past three years, while San Diego's overall employment fell 6% and private sector employment fell 8%.

San Diego's economic ecosystem can be divided into five large clusters comprising the "traded" and "local services" economies. The four traded clusters include technology innovation/manufacturing, defense/military, research institutes/education and convention/tourism/gaming. San Diego's traded economy, which represents almost half a million jobs, attracts and competes with other regions and countries for money (such as federal research grants, procurement contracts and tourism) and resources (such as skilled personnel, new companies and research organizations). These four clusters drive the rest of the local economy, which represents over 60% of all workers employed in San Diego County – more than 770,000 jobs in the fourth quarter of 2010.

CONNECT CEO, Duane Roth, comments, "The strength of the local economy ultimately depends on the growth and development of the traded economy. When the four clusters of the traded economy are functioning well, money flows from those four into the fifth - the local commerce cluster of goods and services. People buy homes, cars and dine out. It's a feedback loop that recycles money in the community. The local economy is the beneficiary of the traded economy."

Communications equipment manufacturing was again the largest employment sector with almost 28,000 jobs. The life sciences sector (pharma / bio / medical devices) and software each represented 27,400 jobs. Defense and transportation represented almost 25,000 jobs. The average annual tech sector wage was \$91,800 – almost double San Diego's overall average annual wage of \$47,400. "It's encouraging for the local economy to have the continued flow of venture capital dollars into the region. The funds flow and the tech start-ups provide the impetus for the growth of knowledge-based jobs, with wages that are double the local average annual wage, and are critical to the economic health of the region," said Gary Moss, Labor Market Specialist at San Diego Workforce Partnership.

The report, including all data, is available at <http://www.connect.org/programs/connect-track/>

## START-UPS DOWN 13% IN 2010; ATTRACT ONLY 1% OF NATIONAL VC DOLLARS; M&A DEAL VALUE DOUBLES; SAN DIEGO LEADS STATE IN PATENT ACTIVITY GROWTH AND FEDERAL RESEARCH FUNDING PER CAPITA

CONNECT's newly released Fourth Quarter 2010 Innovation Report shows 84 new technology start-ups were formed in San Diego in the final quarter of 2010. This was a decrease of almost 11% from the third quarter of 2010 and an increase of more than 13% year-on-year. The overall number of start-ups in 2010 totaled 277, down 13% from 319 in 2009, and up more than 15% from 240 in 2008. "The rally in tech firm start-ups apparent in the previous quarters of 2010 appeared to have sputtered somewhat in the final quarter. Nevertheless the 84 start-ups during the fourth quarter were above the quarterly average observed over the past six years," said Kelly Cunningham, Economist and Senior Fellow at the National University System Institute for Policy Research. "As the U.S. economy is anticipated to slowly grow in 2011, tech start-ups in San Diego can be expected to increase so long as funding investment and growth opportunities are made apparent."



New data in the Report shows San Diego is a California leader in terms of new patents activity. Federal research grants to San Diego's 80+ local research institutes and innovation companies totaled almost \$1.4 billion in 2010. The Department of Defense (DoD) Small Business Innovation Research (SBIR) funding to San Diego in 2010 exceeded that awarded to Silicon Valley for the first time in more than three years totaling \$32 million. Venture capital (VC) investment in San Diego companies decreased 13% to \$193 million in the fourth quarter of 2010. In 2010, the number of San Diego VC investment deals was up 5%, but the dollars invested decreased 11% compared to 2009.

The tight VC market has heightened CONNECT's efforts to make additional sources of capital available to early stage tech companies. CONNECT has formally endorsed the bill introduced by San Diego Congressman Brian Bilbray - bill H.R. 1036 - The Job Creation and Innovation Investment Act of 2011. The goal of the bill is to temporarily reduce the corporate tax on foreign assets in order to draw capital back to the U.S. to help the economy and start-up companies searching for capital to make it through the "Valley of Death" - the period of time from when a start-up company receives an initial capital investment to when it establishes customer traction in the market begins generating significant sales revenues. During this period, additional financing is usually scarce, leaving the firm vulnerable to cash flow requirements. The bill would reduce the tax rate from 35% to 0% if repatriated funds are directed to R&D, proof of concept centers, early stage venture capital investment or manufacturing start-up costs including contract manufacturing.

"San Diego is one of the nation's leading innovation hubs developing life saving therapies, cleantech solutions to our long term energy needs as well as advances in wireless communications technologies and cyber security. It is critical that we develop ways to make more capital available to early stage and growth companies," said Steve Hoey, CONNECT Innovation Report project leader.

**CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)**

The bill would reduce the tax rate from 35% to 0% if repatriated funds are directed to R&D, proof of concept centers, early stage venture capital investment or manufacturing start-up costs including contract manufacturing. Because funds designated for such purposes will help companies in the proverbial Valley of Death, CONNECT formally endorses H.R. 1036.

Southern California now leads the state in the number of jobs for private research organizations. Southern California private research organizations had slightly more than 56,000 employees in the second quarter compared to 54,963 employees in the northern California region. San Diego private research organizations employed 30,000 employees in the second quarter of 2010 – 54% of the total for the Southern California region. San Diego’s average weekly wage was \$2,163 in the second quarter of 2010, up more than 14% from the second quarter of 2009. The average weekly wage for San Diego’s private research organizations was 11% lower than the average in northern California, partially closing the gap between San Diego and the Bay Area, which historically sees higher wages for researchers.

Statewide, the number of tech start-ups totaled 660 in the fourth quarter, down 10% from the third quarter. San Diego accounted for 13% of the new technology businesses started in the fourth quarter of 2010, ranking third after Los Angeles (LA) and Santa Clara Counties. In the fourth quarter, San Diego had 84 start-ups, down almost 11% from 94 in the previous quarter, while LA had 128 new companies and Santa Clara had 88. Orange County ranked fourth with 76.

Start-up activity in California was down slightly (7%) for the year with 2,350 new companies in 2010 compared to 2,522 in 2009. San Diego saw a similar decrease with 277 new companies in 2010 compared to 319 in 2009. The five year average for San Diego is 290 tech start-ups per year.

San Diego tech start-ups created 195 new jobs in the fourth quarter and more than 930 jobs for the full year 2010.

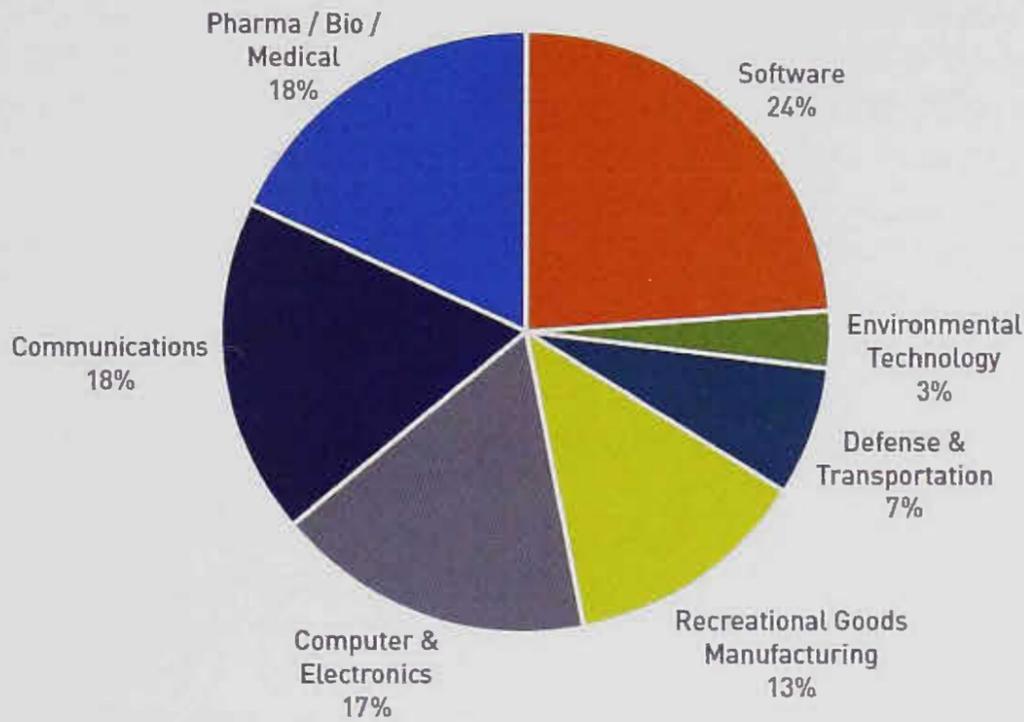
**SAN DIEGO INNOVATION START-UPS BY QUARTER**



Source: CONNECT; National University System Institute of Policy Research

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)

SAN DIEGO START-UPS BY INDUSTRY - 4<sup>TH</sup> Quarter 2010



Source: CONNECT; National University System Institute of Policy Research

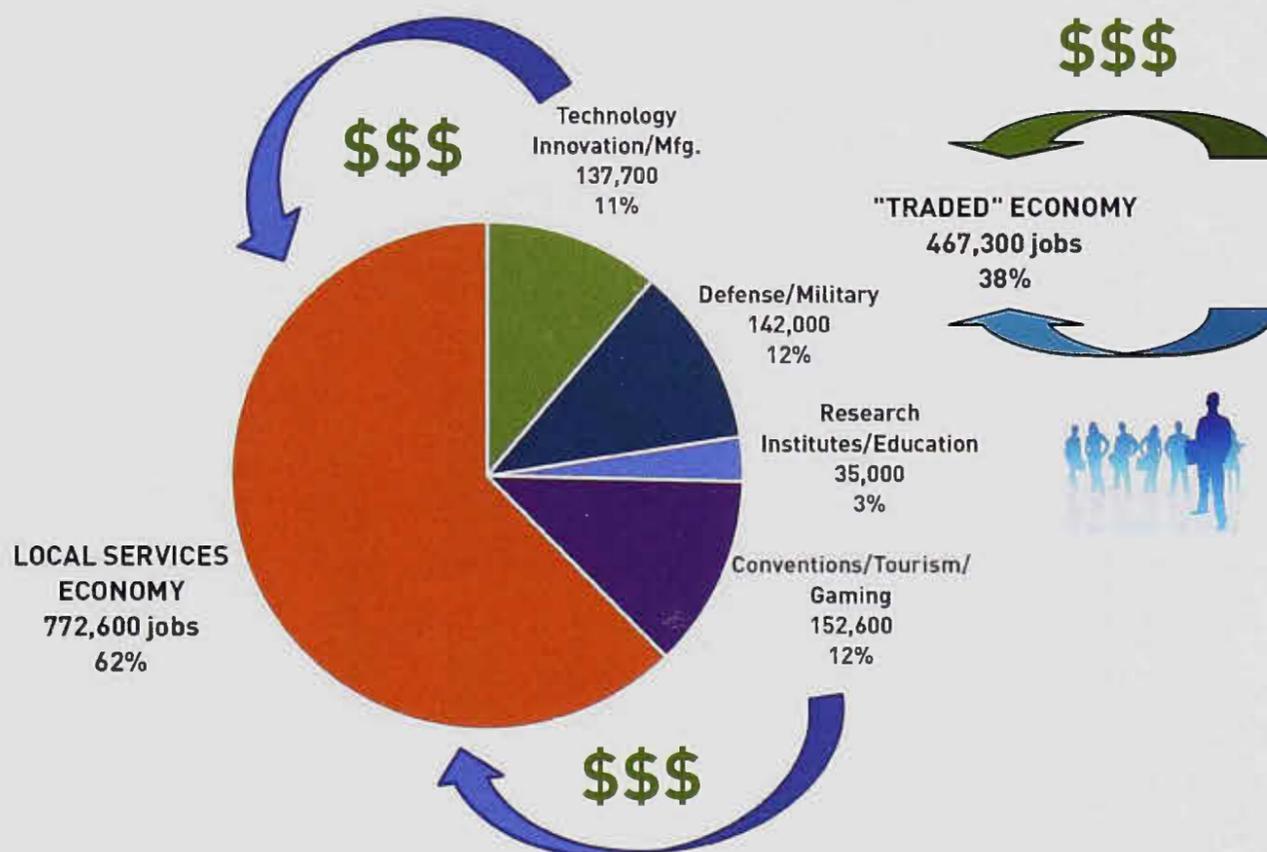
“Life sciences start-ups declined the most in the fourth quarter and over the entire year of 2010. The relatively high costs of starting these businesses and current challenges in obtaining financing undoubtedly lessened their formations in 2010. Biotech and medical devices, nevertheless, accounted for nearly two out of every three venture capital dollars (62%) raised in San Diego during 2010,” Cunningham commented.

“Surprisingly, both software and environmental technology start-ups were similarly down during the year. Computers and electronics, defense/transportation and recreational goods manufacturing showed the highest gains for start-ups the past year. Communication start-ups also saw slight gains.”

SAN DIEGO'S KEY TRADED CLUSTERS DRIVE OVERALL ECONOMY

The San Diego economy can be divided into five large clusters comprising the “traded” and “local services” economies. The four traded clusters include technology innovation/manufacturing, defense/military, research institutes/education and conventions/tourism/gaming. The four clusters of the traded economy, which represent almost half a million jobs, attract and compete with other regions and countries for money (such as federal research grants, procurement contracts and tourism) and resources (such as skilled personnel, new companies and research organizations). These four clusters drive the rest of the local economy, which itself represents over 60% of all workers employed in San Diego County – more than 770,000 jobs in the fourth quarter of 2010.

ESTIMATED EMPLOYMENT IN SAN DIEGO - 4<sup>TH</sup> QUARTER 2010  
1.24 Million Jobs



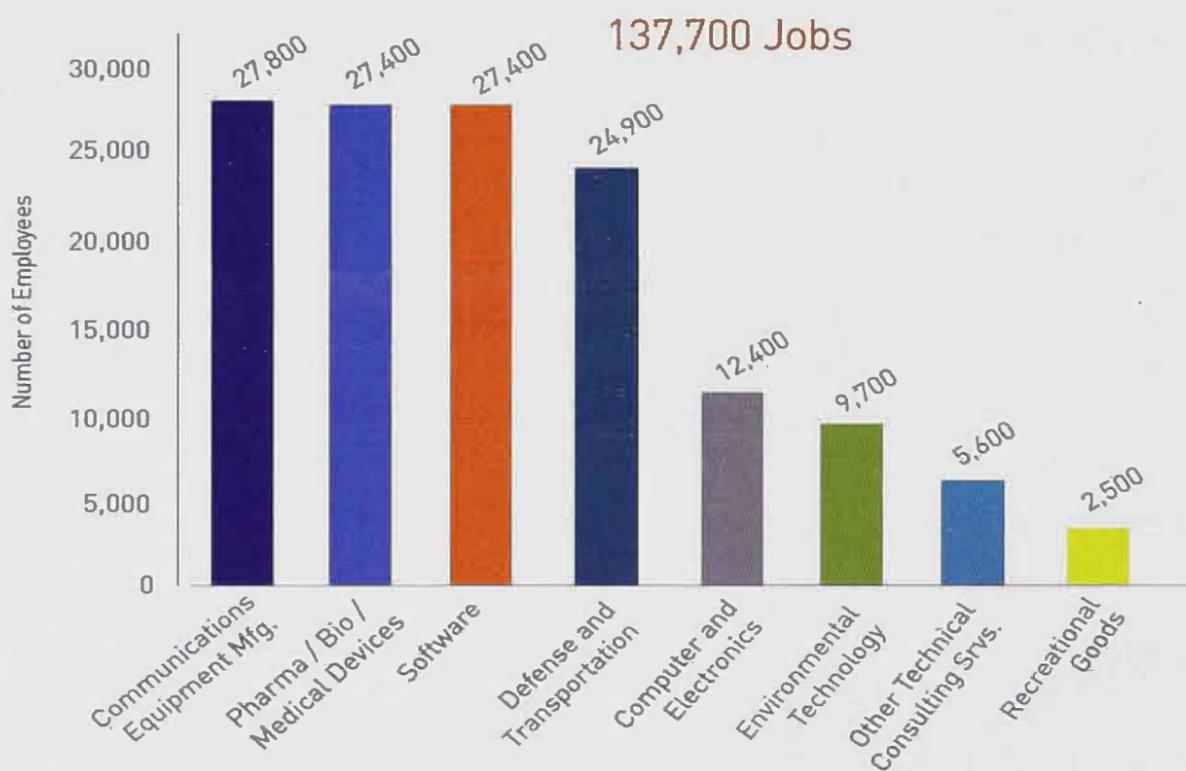
## CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)

CONNECT CEO, Duane Roth, comments, "The strength of the local economy ultimately depends on the growth and development of the traded economy. When the four clusters of the traded economy are functioning well, money flows from those four into the fifth - the local commerce cluster of goods and services. People buy homes, cars and dine out. It's a feedback loop that recycles money in the community. The local economy is the beneficiary of the traded economy."

The tech sector represented 11% of all jobs in San Diego County in the fourth quarter of 2010 with almost 138,000 workers employed. Communications equipment manufacturing was again the largest employment sector with almost 28,000 jobs. The life sciences sector (pharma / bio / medical devices) and software each represented 27,400 jobs. Defense and transportation represented almost 25,000 jobs. The average annual tech sector wage was \$91,800 – almost double San Diego's overall average annual wage of \$47,400.

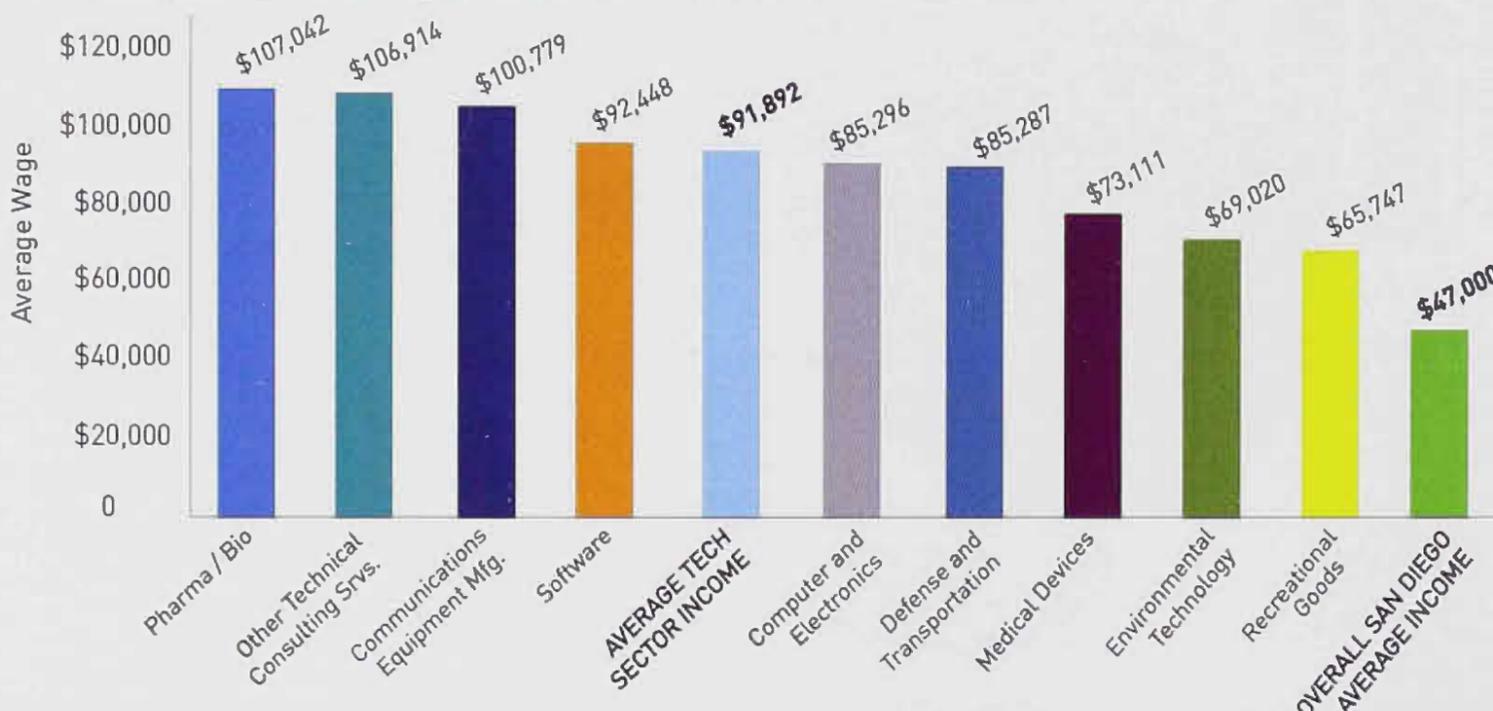
"It's encouraging for the local economy to have the continued flow of venture capital dollars into the region. The funds flow and the tech start-ups provide the impetus for the growth of knowledge based jobs, with wages that are double the local average annual wage, and are critical to the economic health of the region," said Gary Moss, Labor Market Specialist with the San Diego Workforce Partnership.

### SAN DIEGO TECH EMPLOYMENT BY INDUSTRY – 4th Quarter 2010



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

### SAN DIEGO AVERAGE TECH SECTOR WAGES BY INDUSTRY



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

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)

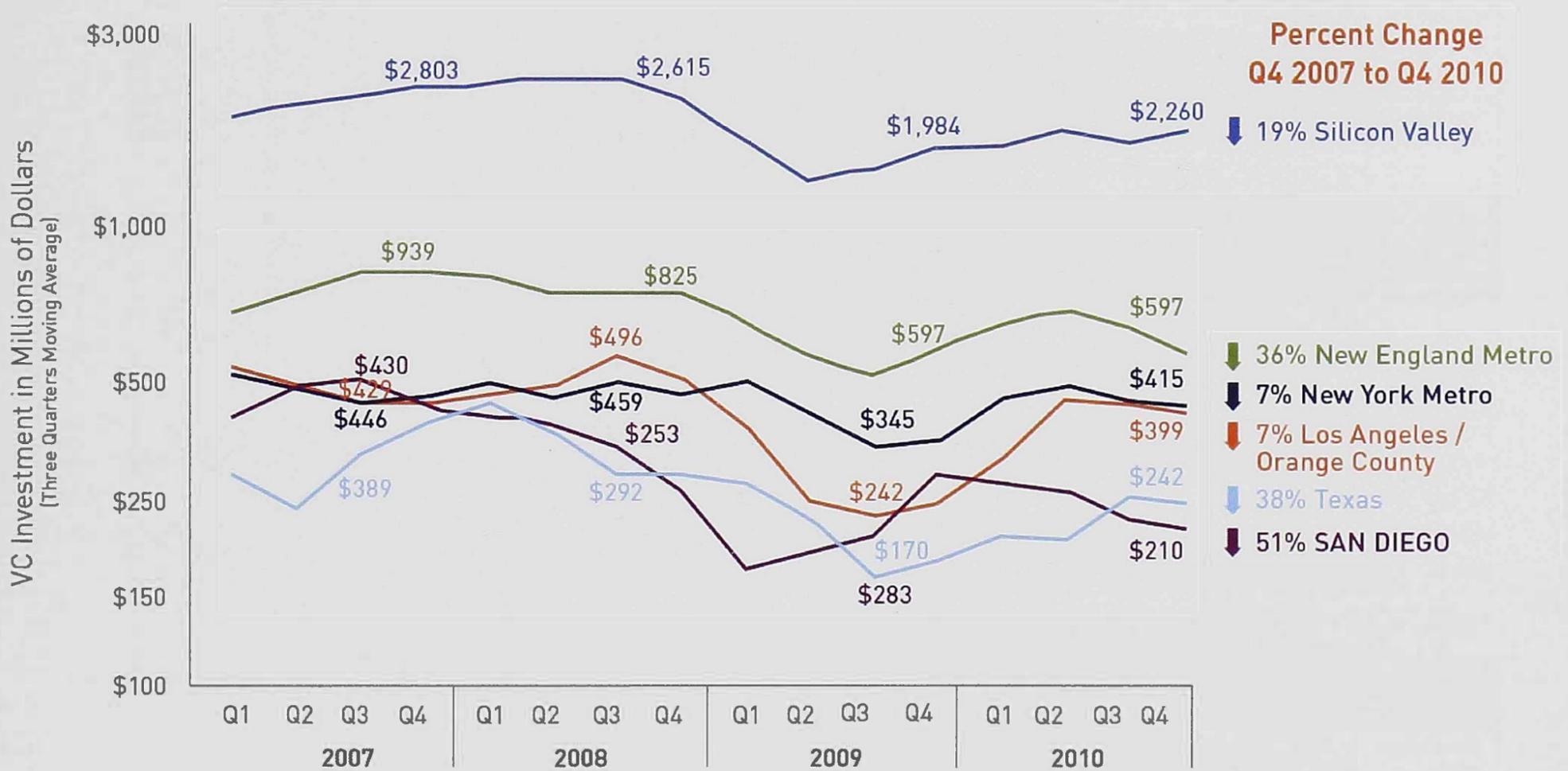
SAN DIEGO START-UPS RECEIVE ONLY 1% OF VC INVESTMENT IN 4<sup>TH</sup> QUARTER 2010

Venture capital investment in the San Diego region continued to decline throughout 2010 to the lowest annual total since 2003. Venture investment in the fourth quarter of 2010 was down 13% from the third quarter, with 26 local companies receiving \$193 million, according to the most recent PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report. Venture capitalists invested \$847 million in 115 deals in San Diego in 2010, a five percent increase in the number of companies receiving funding but an 11% decrease in dollars invested compared to 2009.

Start-ups received only 1% of the total VC investment in San Diego in the fourth quarter, same as in the previous quarter, and early stage companies received 26% of VC investment. The fourth quarter saw a substantial shift of investment dollars from expansion stage companies to financing of later stage companies, which received 59% of the total VC investment in San Diego, up from 31% in the third quarter. For the full year 2010, the breakdown of VC investments by company development stage was: 11% to start-ups, 29% to early stage, 26% to expansion stage and 34% to later stage.

When using a moving average of three quarters' data, San Diego shows a more substantial decline in venture investment relative to the other top five regions over the past three years. [A moving average smooths quarter-to-quarter fluctuations to better enable trend analysis.] The San Diego Q4 2010 VC investment moving average was down more than 50% from Q4 2007 – a substantially larger decrease than seen in other key innovation economies such as Silicon Valley and New England Metro. LA/Orange County VC investment has almost returned to pre-recession levels.

VC INVESTMENT MOVING AVERAGE BY REGION - 2007 to 2010



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

**CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)**
**REGIONAL VENTURE CAPITAL LEVELS 3<sup>RD</sup> QUARTER 2010 VS. 4<sup>TH</sup> QUARTER 2010**

Region	Q3 2010 Rank	Q4 2010 Rank	Q3 2010 VC Investment (in \$M)	Q4 2010 VC Investment (in \$M)	Percent Change
Silicon Valley	1	1	\$1,833	\$2,001	+9%
New England	2	2	\$526	\$536	+2%
New York City Metro	4	3	\$341	\$513	+50%
Midwest	7	4	\$258	\$378	+47%
LA / Orange County	8	5	\$229	\$305	+33%
Colorado	12	6	\$88	\$254	+189%
<b>SAN DIEGO</b>	<b>9</b>	<b>7</b>	<b>\$223</b>	<b>\$193</b>	<b>-13%</b>
Southeast	5	8	\$265	\$191	-28%
Northwest	10	9	\$194	\$160	-18%
Wash. DC / Metroplex	6	10	\$259	\$143	-45%
Top 10 Regions			\$4,216	\$4,674	+11%
UNITED STATES			\$4,945	\$5,017	+1%

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

**SUMMARY OF NATIONAL & REGIONAL VENTURE CAPITAL**

Region		2007	2008	2009	2010	2009 Q4	2010 Q3	2010 Q4
United States	Total (in Billions)	\$30.5	\$28.0	\$18.1	\$21.9	\$5.2	\$4.9	\$5.0
	# of Deals	4,027	3,985	2,893	3,277	716	789	765
	Average (in Millions)	\$7.6	\$7.0	\$6.2	\$6.7	\$7.3	\$6.3	\$6.6
California	Total (in Billions)	\$14.6	\$14.0	\$9.1	\$11.0	\$2.9	\$2.3	\$2.5
	# of Deals	1,663	1,626	1,185	1,289	301	290	305
	Average (in Millions)	\$8.8	\$8.6	\$7.7	\$8.5	\$9.5	\$7.9	\$8.2
Northern CA	Total (in Billions)	\$11.0	\$10.8	\$7.2	\$8.5	\$2.4	\$1.8	\$2.0
	# of Deals	1,273	1,251	871	969	226	220	231
	Average (in Millions)	\$8.6	\$8.6	\$8.3	\$8.8	\$10.5	\$8.4	\$8.7
Southern CA	Total (in Billions)	\$3.6	\$3.2	\$1.9	\$2.2	\$0.5	\$0.5	\$0.3
	# of Deals	390	375	266	289	75	65	48
	Average (in Millions)	\$9.3	\$8.5	\$7.0	\$7.7	\$6.7	\$7.0	\$6.4
San Diego	Total (in Billions)	\$1.9	\$1.2	\$0.9	\$0.8	\$0.25	\$0.22	\$0.19
	# of Deals	167	132	107	115	36	30	26
	Average (in Millions)	\$11.6	\$9.0	\$8.4	\$7.4	\$7.0	\$7.4	\$7.4

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

**VALUE OF SAN DIEGO M&A DEALS DOUBLES; CALIFORNIA SEES SIMILAR RISE**

Company merger and acquisition activity jumped substantially across California in 2010 compared to the previous year. The value of reported San Diego deals closed in the fourth quarter of 2010 was almost \$1.7 billion, and almost \$4 billion for the year – more than double the value and number of deals reported in 2009. In Southern California, the M&A market in 2010 totaled more than \$40 billion – almost seven times more than reported in 2009 and up almost 60% in the fourth quarter of 2010 compared to the previous quarter.

**REGIONAL M&A DEALS – 4<sup>TH</sup> QUARTER and FULL YEAR 2010**

Region		2009 Q4	2009	2010 Q3	2010 Q4	2010
Northern CA	Total Reported Value (in Millions)	\$17,134	\$20,803	\$21,834	\$9,207	\$56,566
	# of Closed Deals	136	337	187	174	860
Southern CA	Total Reported Value (in Millions)	\$3,181	\$6,608	\$8,441	\$13,301	\$43,697
	# of Closed Deals	131	314	142	224	788
San Diego	Total Reported Value (in Millions)	\$1,250	\$1,655	\$1,017	\$1,680	\$3,859
	# of Closed Deals	29	79	29	41	156

Note: Not all M&A deals report a disclosed \$ value. Total deal values are in fact higher than those shown in the table above. Source: Capital IQ; Roth Capital Partners

**CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)**
**TWO SAN DIEGO COMPANIES RAISED \$140 MILLION THROUGH IPOs IN FOURTH QUARTER 2010**

Nine California companies went public raising \$1.35 billion through Initial Public Offerings (IPOs) in the fourth quarter of 2010. This was more than double the \$519 million raised by five California companies in the third quarter of 2010. Two San Diego companies, REVA Medical, Inc. and Zogenix, Inc., raised almost \$84 million and \$56 million, respectively, in the fourth quarter. San Diego IPOs represented almost 12% of total California IPO deal value.

A Los Angeles-based energy fund raised \$475 million, bringing the southern California region to \$615 million for the quarter. Six companies in Northern California raised \$736 million, or 54% of the total California IPO deal value in the fourth quarter of 2010.

**CALIFORNIA IPOs BY REGION – 4<sup>TH</sup> QUARTER 2010**

Region	Reported Deal Value (in \$M)	Number of Deals
San Diego	\$140	2
Southern CA (incl. San Diego)	\$615	3
Northern CA	\$736	6
<b>Fourth Quarter 2010 Total - California IPOs</b>	<b>\$1,351M</b>	<b>9</b>

Source: Capital IQ; ROTH Capital Partners; CONNECT

**CALIFORNIA IPOs BY COMPANY – 4<sup>TH</sup> QUARTER 2010**

Company	Description	Reported Deal Value (in \$M)	City	Region
Kayne Anderson Midstream Energy Fund, Inc. (NYSE:KMF)	Energy Investment Fund	\$475.0	Los Angeles	Southern CA
First Republic Bank (NYSE:FRC)	Financial Services	\$280.5	San Francisco	Northern CA
Pacific Biosciences of California, Inc. (NasdaqGS:PACB)	Biotechnology	\$200.0	Menlo Park	Northern CA
REVA Medical, Inc. (ASX:RVA)	Medical Device	\$83.7	San Diego	San Diego
Inphi Corporation (NYSE:IPHI)	Semiconductors	\$81.6	Santa Clara	Northern CA
United States Commodity Index Funds Trust (ARCA:USCI)	Investment Trust	\$60.0	Alameda	Northern CA
Anacor Pharmaceuticals, Inc. (NasdaqGM:ANAC)	Pharmaceuticals	\$60.0	Palo Alto	Northern CA
Zogenix, Inc. (NasdaqGM:ZGNX)	Pharmaceuticals	\$56.0	San Diego	San Diego
Complete Genomics, Inc. (NasdaqGM:GNOM)	Biotechnology	\$54.0	Mountain View	Northern CA
<b>Fourth Quarter 2010 California IPOs</b>	<b>9 Deals</b>	<b>\$1,351M</b>		

Source: Capital IQ; ROTH Capital Partners; CONNECT

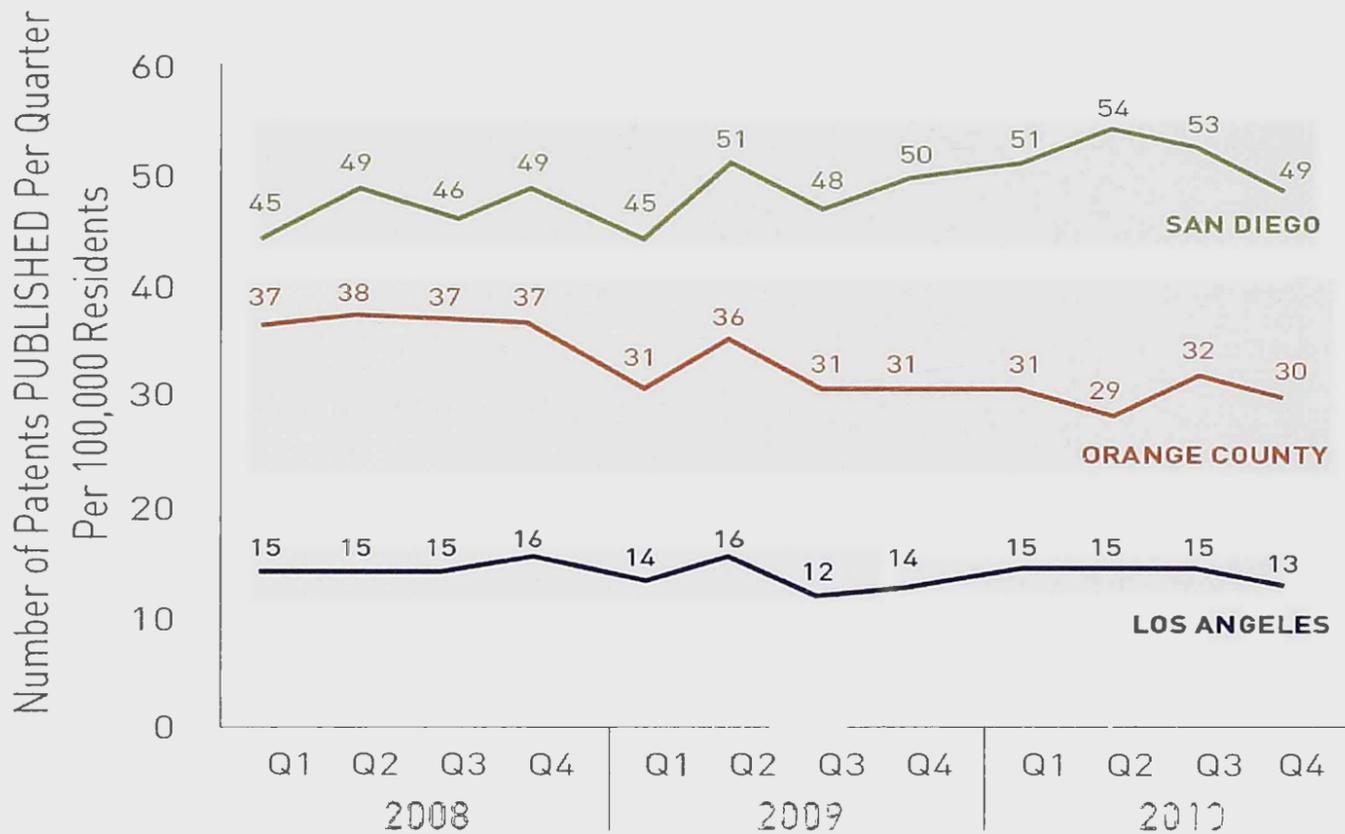
Thirty-one companies went public with IPOs in California in 2010 with a reported combined deal value of \$5.4 billion. Five companies were based in San Diego County and had a reported combined deal value of \$427 million. Southern California accounted for almost one third of the IPO deal value in California for the year with 12 companies raising \$1.6 billion. Northern California saw 19 companies close \$3.8 billion in IPO deals for the year. The Southern California companies that went public in 2010 are listed in the Full Report. In addition, two San Diego companies, Peregrine Semiconductor and Fallbrook Technologies, were on file to go public on U.S. exchanges at the end of December 2010.

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)

SAN DIEGO IS GROWTH LEADER IN PATENT INNOVATION PER CAPITA

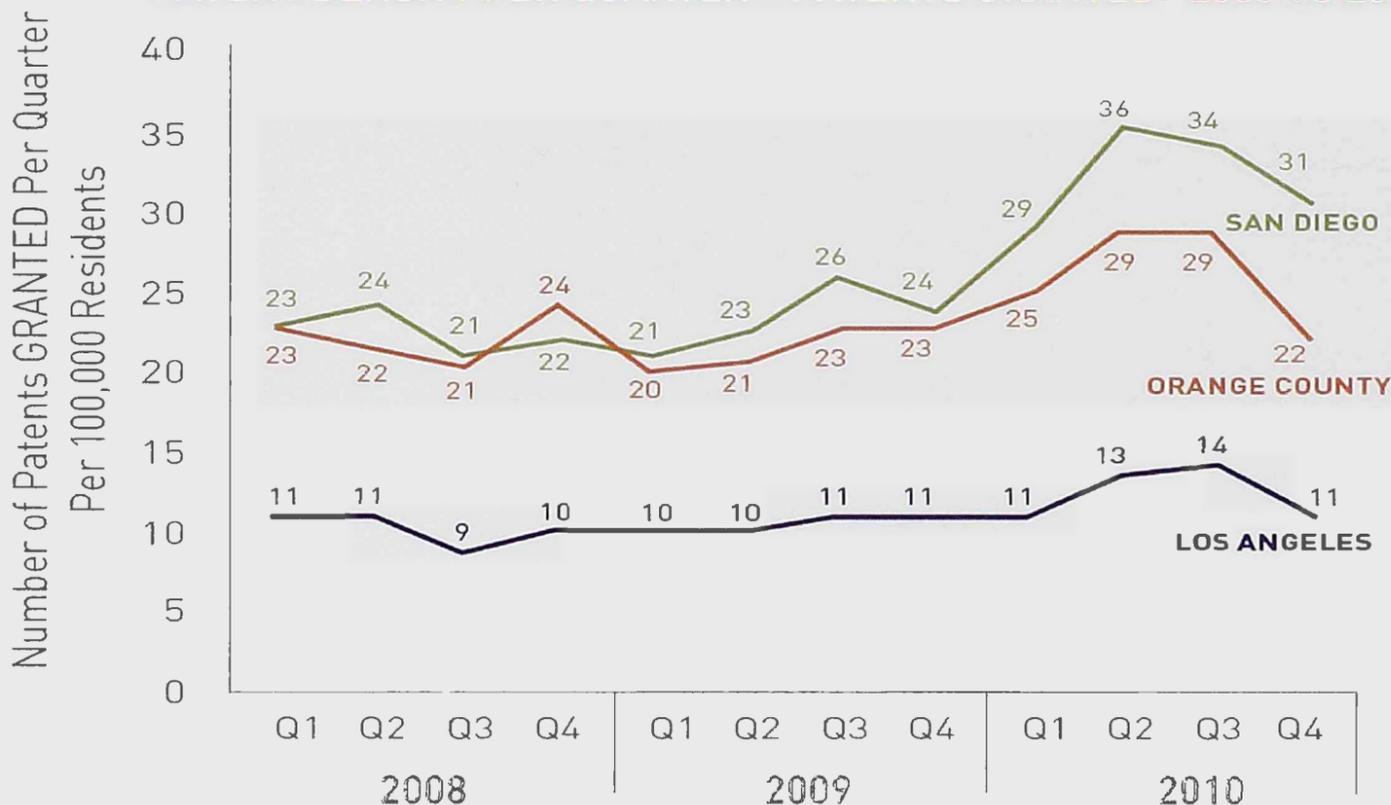
San Diego continued to lead the Southern California region in the fourth quarter measured by the number of patents published and granted per 100,000 residents over the past three years. San Diego also shows higher year-to-year growth in the number of patents published and granted between 2008 and 2010, compared to other California regions and the East Coast innovation hub Boston. Over the past three years in San Diego, the number of patents published increased by more than 12% and the number of patents grants jumped by more than 45%. "This kind of patent density and growth serves as a good barometer of the level and pace of innovation in the region, said Steve Hoey, CONNECT Innovation Report project leader.

PATENT DENSITY PER QUARTER – PATENT APPLICATIONS PUBLISHED: 2008 TO 2010



Source: United States Patent and Trademark Office; UC San Diego Extension; CONNECT

PATENT DENSITY PER QUARTER – PATENTS GRANTED: 2008 TO 2010



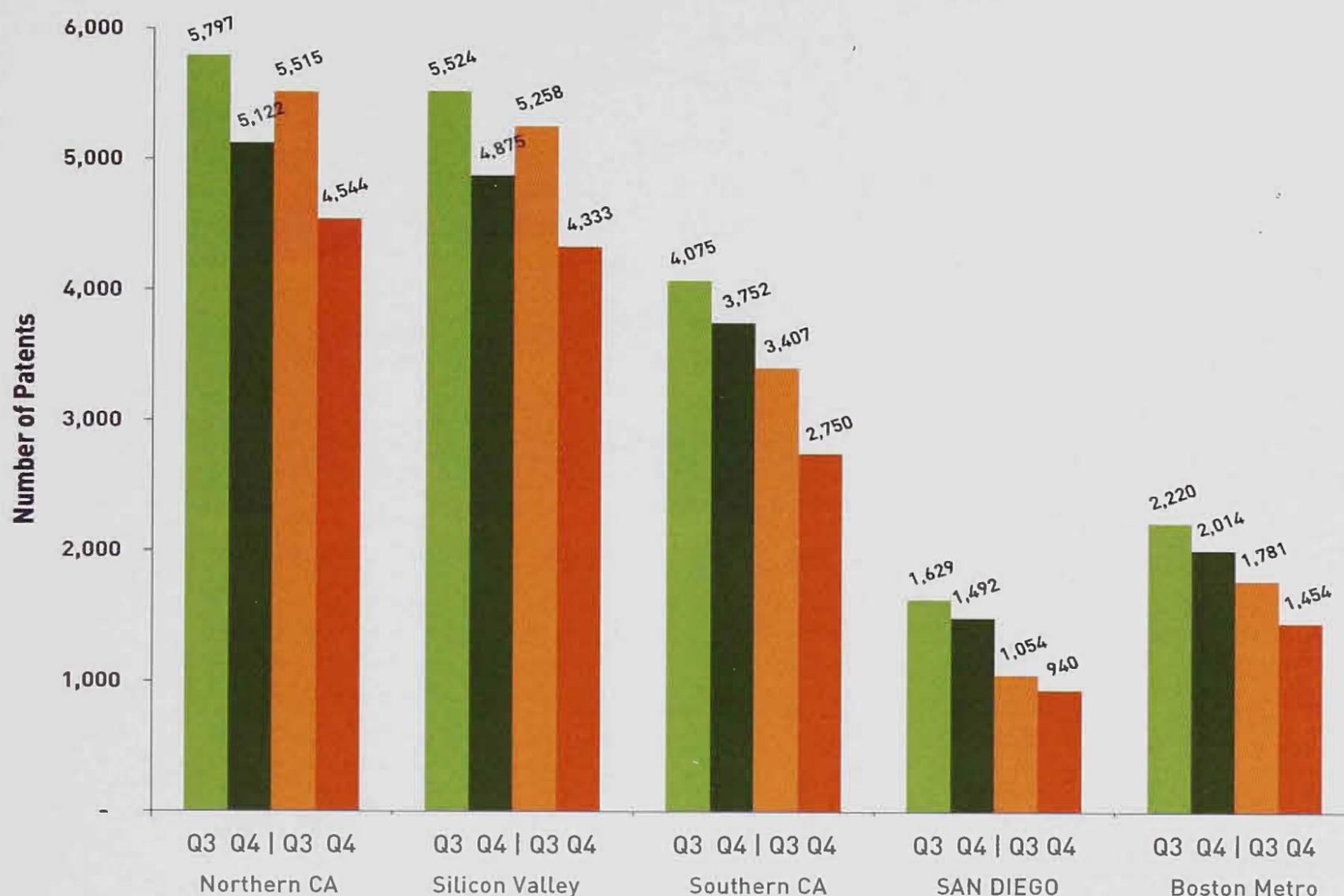
Source: United States Patent and Trademark Office; UC San Diego Extension; CONNECT

In San Diego, 940 patents were granted in the fourth quarter of 2010, down 11% from the 1,054 granted in the previous quarter. Patent applications published in the fourth quarter were down more than 8% in the fourth quarter with 1,492 patents published compared to 1,629 in the third quarter of 2010. San Diego accounted for 17% of the patent applications published in California in the second quarter and 12% of the patents granted. Patent activity was down across California in the second half of 2010.

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)

PATENTS PUBLISHED AND GRANTED BY REGION

3<sup>RD</sup> QUARTER 2010 VS. 4<sup>TH</sup> QUARTER 2010



Source: United States Patent and Trademark Office; UC San Diego Extension

**SAN DIEGO TOP REGION IN STATE RECEIVING FEDERAL RESEARCH FUNDING PER CAPITA**

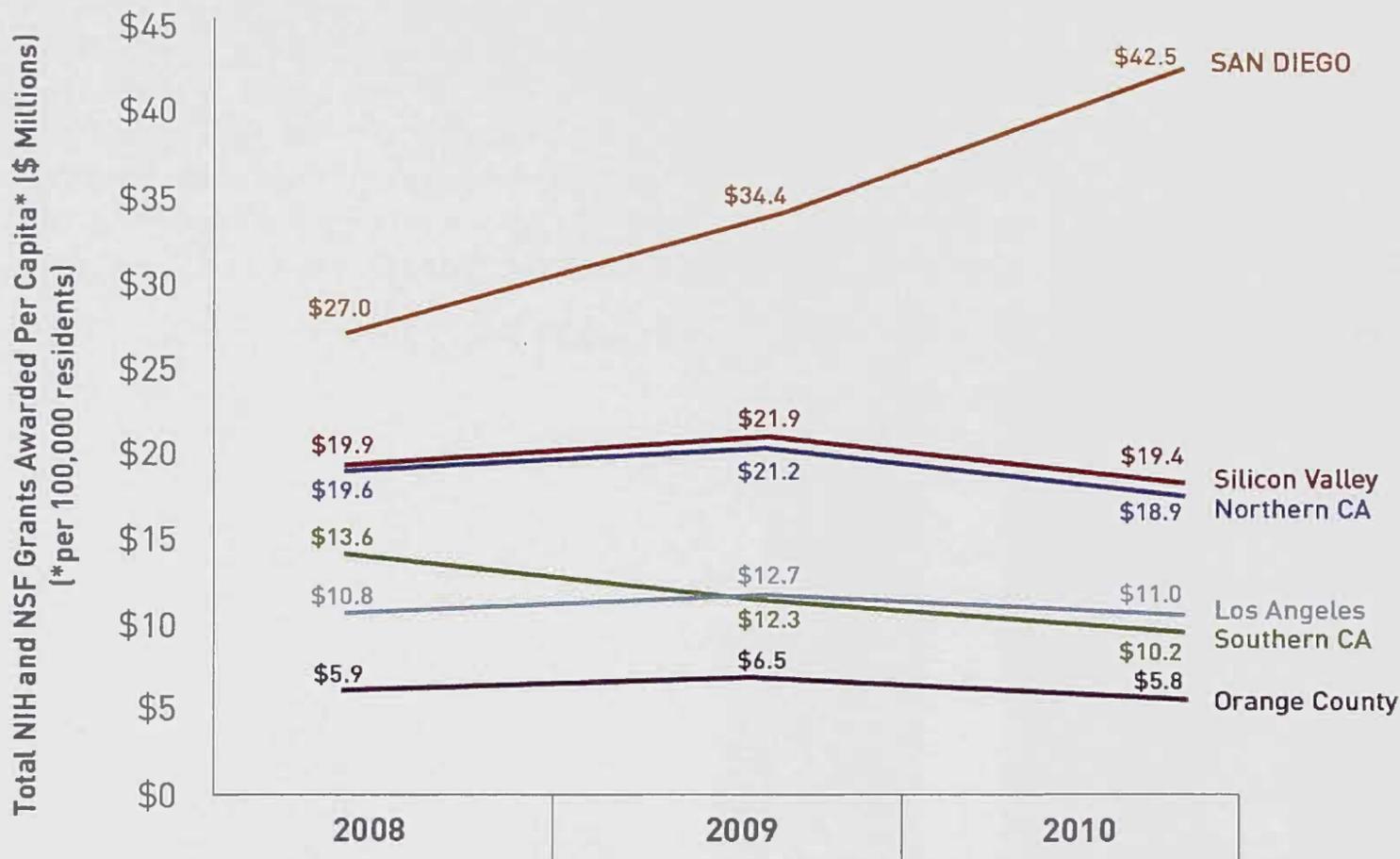
San Diego was among the top innovation economies in the state based on the amount of federal grant funding per capita received from the National Institutes of Health (NIH) and the National Science Foundation (NSF) over the past three years. San Diego's NIH and NSF funding per capita totaled almost \$44 million in 2010. Federal grant funding awarded in San Diego from the NIH totaled almost \$1.2 billion in 2010, up 28% from 2009 and more than 70% from 2008.

NSF funding to San Diego research institutions and innovation companies totaled almost \$126 million in 2010, up slightly from the previous year. In the fourth quarter, San Diego received \$278 million in NIH funding and more than \$31 million in NSF funding. San Diego also received more than \$21 million in federal research funding from the National Oceanic and Atmospheric Administration (NOAA) and more than \$10 million from the National Aeronautics and Space Administration (NASA) in 2010.

New data from the Department of Defense shows San Diego innovation companies received almost \$32 million in Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) program grants in 2010. Through these two competitive programs, the U.S. Small Business Administration (SBA) Office of Technology ensures that the nation's small, high-tech, innovative businesses are a significant part of the federal government's defense technology research and development efforts.

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CONT'D)

NIH AND NSF GRANT FUNDING PER CAPITA - 2008 TO 2010



Source: National Institutes of Health, National Science Foundation; UC San Diego Extension

REGIONAL DoD SBIR/STTR FUNDING - 2008 TO 2010



Source: Department of Defense SBIR/STTR Database; UC San Diego Extension

SBIR/STTR funding is only a small portion of total federal Department of Defense (DoD) spending in the San Diego region. The military comprises a significant part of the region's economy and provides high-quality middle-class and upper-middle-class jobs; procurement contracting with local companies; and investing in research and development of advanced technologies such as autonomous unmanned vehicles, sensors and surveillance. In addition, the military is shifting a greater portion of its forces to the Pacific area of operations and is building infrastructure in San Diego accordingly. Expenditures in the area are likely to increase.

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The full 68-page CONNECT Innovation Report for Fourth Quarter 2010 and 2010 Year End Summary is available online at <http://www.connect.org/programs/connect-track/>

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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](http://www.connect.org).







Accelerating Innovation in San Diego™

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.

It demonstrates that San Diego is a leading center for innovation because of the region's world-class research, leadership and management talent.

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