

CONNECT INNOVATION REPORT

SECOND QUARTER 2010



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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, 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 is the first to provide 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;
- New data on technology sector employment in California and key regions;
- 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 California and San Diego;
- 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 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 is world leader in innovation with world-class research, leadership and management talent.

CONNECT Innovation Report Steering Committee

Steve Hoey	Project Leader, CONNECT Innovation Report	CONNECT
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Peter Thomas	Director	UC San Diego Extension

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

TECH START-UPS BOUNCE BACK IN Q2 2010; SECTOR WAGES 90% HIGHER THAN AVERAGE; VC INVESTMENT STILL DOWN 70% FROM PRE-RECESSION LEVELS; M&A DEALS DOUBLE; FEDERAL FUNDING JUMPS 34%.

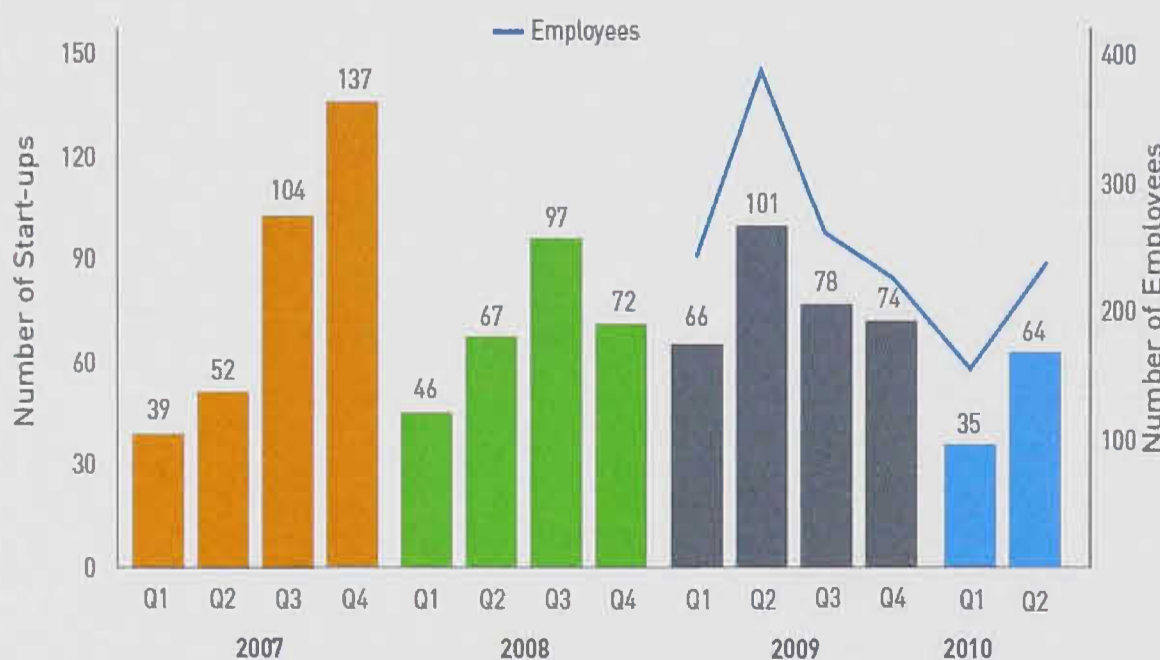
CONNECT's newly released Q2 2010 Innovation Report shows 64 new technology start-ups were formed in San Diego in the second quarter of 2010. This was an increase of 83% from the first quarter of 2010 and down slightly from the second quarter of 2009. These companies created over 250 new jobs in San Diego in the second quarter. Federal grant funding to San Diego increased 34% to over \$380 million from \$286 million in the first quarter of 2010, largely due to increased funding by the National Institutes of Health (NIH). Federal grant funding far exceeded VC investment, which totaled \$171 million in the second quarter of 2010. San Diego VC investment was down nearly 70% from 2007 pre-recession levels while Silicon Valley was down 9% and LA/Orange County was up 54% for the comparable period.



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;
- : Regional technology sector employment and wages - NEW;
- : Venture capital investment;
- : Mergers and acquisition activity;
- : New patents applications published and patents granted; and
- : Research grants.

SAN DIEGO INNOVATION START-UPS BY QUARTER

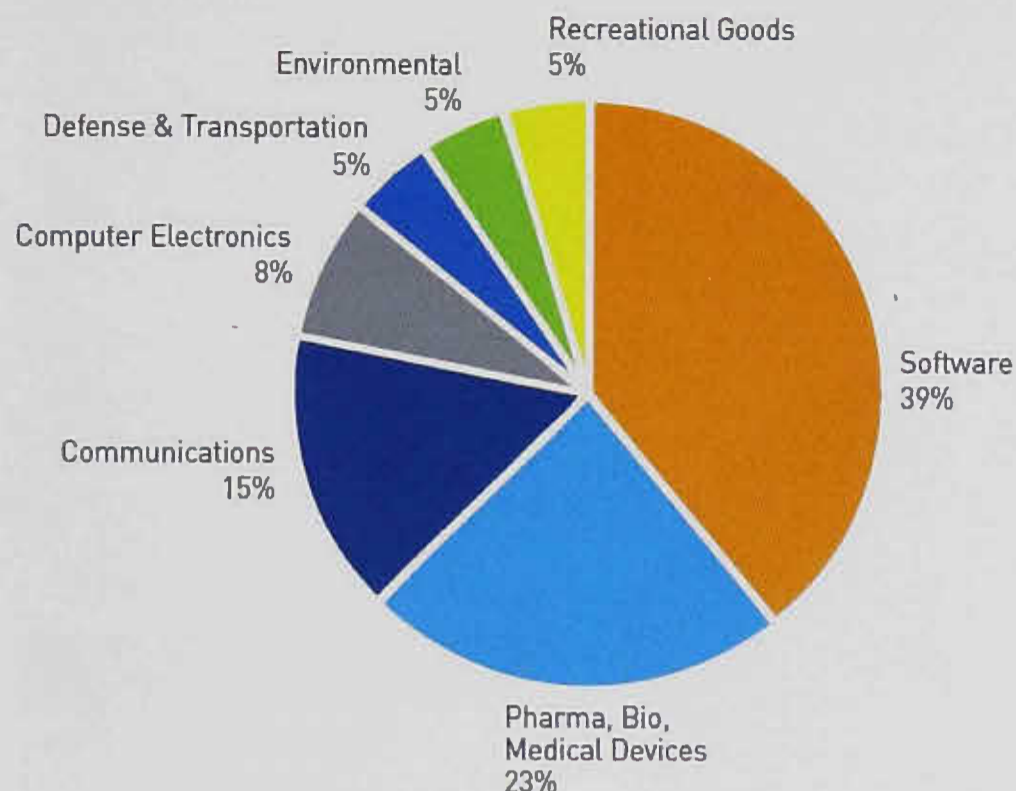


Source: CONNECT; National University System Institute of Policy Research

Statewide, San Diego accounted for 11% of new technology businesses in the second quarter of 2010, ranking fourth after Los Angeles (LA), Santa Clara and Orange County. San Diego had 64 start-ups, up 83% from 35 in the previous quarter while LA had 123 start-ups, Santa Clara had 89, and Orange County had 77 in the second quarter of 2010. There were substantial increases in the second quarter in the number of new companies compared to the first quarter of 2010 across almost all tech sectors. San Diego's software sector led the pack with 25 start-ups, more than double the 11 established in the first quarter of 2010, and ranked third statewide after LA's 38 and Santa Clara's 34 software start-ups.

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CON'T)

SAN DIEGO START-UPS BY INDUSTRY – Q2 2010



San Diego also ranked third statewide in life sciences start-ups with 15 new companies after LA and Santa Clara each with 20 new companies. The number of San Diego life sciences start-ups was up 88% in the second quarter. San Diego's communications sector ranked third in the state with 10 start-ups after LA with 28 and Orange County with 13. California overall showed a jump in start-up creation in the second quarter of 2010 with 597 new technology companies established compared to 357 in the first quarter – a 67% increase. This was down 18% from the second quarter of 2009 when 729 companies were started. The state's software sector again represented the highest number of technology start-ups in the second quarter of 2010 with 211 new companies statewide, up 82% from the first quarter. Pharma/biotech/medical devices was the second largest sector in the state with 102

start-ups, up 44% from 71 companies in the first quarter of 2010. Overall, 2,400 new jobs were created in the California's innovation economy in the second quarter of 2010.

TECH EMPLOYERS CONTINUE TO BE A KEY DRIVER OF OVERALL ECONOMY

Recent data provided by the National University System Institute for Policy Research (NUSIPR) for CONNECT shows that although San Diego's tech sector represents only 6% of employers and just over 11% of all jobs in the county, tech employment accounts for over 25% of all wages and pays 90% more than the overall average industry wage. Tech jobs have also been more secure against the economic downturn. Tech employment overall decreased about 3% over the past two years, or about 4,000 jobs, while San Diego's overall non-tech employment fell 8%, or about 97,000 jobs.

For the first time, a methodology has been developed by the NUSIPR for CONNECT to provide new data showing the economic impact of the technology sector in three key regions in California. San Diego's tech sector accounts for over 12% of California's total tech jobs with over 136,500 employees based on second quarter 2010 estimates. Santa Clara County, which has a higher concentration of tech employment (nearly a quarter of Santa Clara's total employment) has over 200,000 tech jobs and Orange County has nearly 122,000. For more data on tech employment and wages across these regions, see the full Report below.

REGIONAL TECHNOLOGY EMPLOYMENT

Number of Jobs	State of California	Selected Key Counties		
		San Diego	Santa Clara	Orange
Number of Jobs - All Industries	14,524,800	1,229,600	837,700	1,250,000
Number of Jobs - Private Industries	12,100,000	1,018,900	751,700	1,023,700
Number of Jobs - Tech Sector	1,121,500	136,500	202,800	121,500
Tech Sector Jobs as Percentage of Private Industries Employment	9.3%	13.4%	27.0%	11.9%
Tech Sector Jobs as Percentage of All Industries Employment	7.7%	11.1%	24.2%	9.7%
County Tech Sector Employment as Percentage of Total California Tech Employment		12.2%	18.1%	10.8%

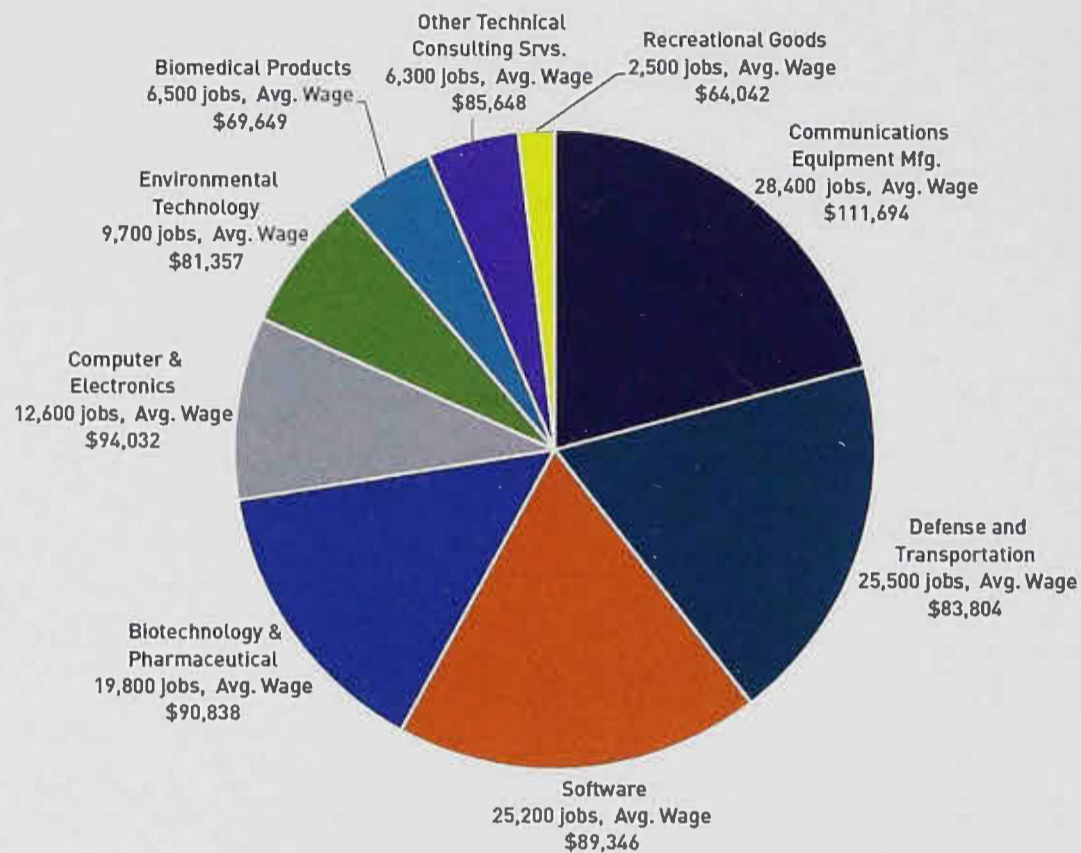
Source: CONNECT; National University System Institute of Policy Research

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CON'T)

Communications equipment manufacturing was the largest employment sector with 28,400 jobs and an average annual wage of nearly \$112,000. Life sciences sector (bio/pharma/biomed products) was the second largest with 26,300. Defense and transportation and software sectors had over 25,000 jobs each. The computer and electronics sector showed the second highest average annual wage at \$94,000.

SAN DIEGO TECH EMPLOYMENT & WAGES – Q2 2010

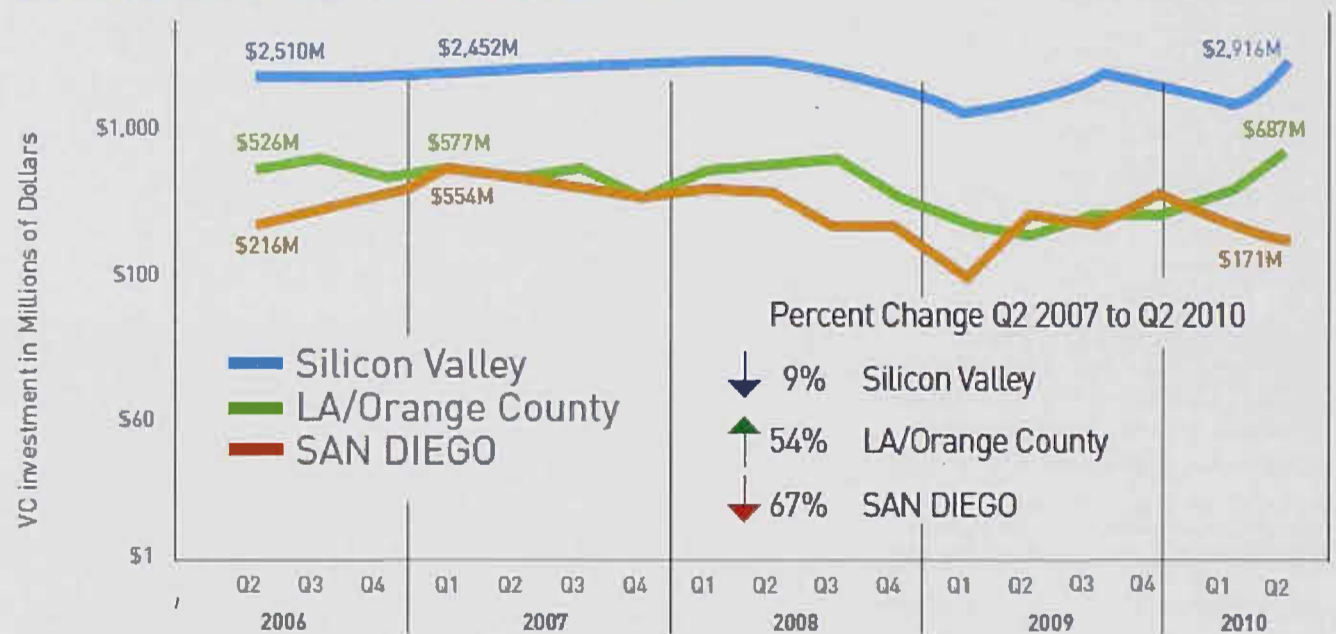
136,500 Jobs



SAN DIEGO VC FUNDING CONTINUES TO DROP

Venture capital investment in San Diego continues to be down almost 70% from pre-recession levels as measured by Q2 2007 results. Venture investment in the second quarter of 2010 was down 24% from the first quarter with 24 local companies receiving \$171 million, according to the most recent PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report. Compared to the previous year, the amount of VC funding was down 34% from the \$257 million raised by 26 San Diego companies in the second quarter of 2009. In the second quarter of 2007, \$515 million was invested in 42 San Diego companies. Since the onset of the recent recession, San Diego has suffered a larger decrease in VC investment compared to Silicon Valley and LA/Orange Counties. San Diego VC investment spiked in the first quarter of 2007 to over half a billion dollars following a year of steadily increasing investments – the highest quarter total since the third quarter 2003 – whereas just prior to the recession, VC investments in the Silicon Valley and LA/Orange County regions grew only slightly. Falling from the substantial upsurge in early 2007, VC investment in San Diego in the second quarter of 2010 was down 67% from the second quarter of 2007, while Silicon Valley’s second quarter 2010 result was down only 9% and LA/Orange County was up 54% compared to three years ago.

VC INVESTMENT BY REGION



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

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CON'T)

San Diego's regional ranking also declined from seventh to tenth in the nation in the second quarter of 2010 receiving 3% of total nationwide investments down from 5% in the previous quarter. Southern California (San Diego and LA/Orange Counties) moved up to rank second nationally with VC investments of \$857 million for the quarter, up 36% from \$632 million in the first quarter of 2010 and up nearly 90% from the \$452 million in the second quarter of 2009. In San Diego, the life sciences sector again received the majority of the financing during the second quarter of 2010 with 17 companies receiving \$138 million or 81% of the total funds invested, down slightly from the \$145 million, or 64%, of the funds invested in the first quarter of 2010. Compared to the second quarter of 2009, VC investment in life sciences companies was down 15% when \$159 million was invested in 16 companies.

The software sector received the second largest VC investment with one company (Zeebo, Inc.) receiving \$13.5 million. This was followed by the computers and peripherals sector at \$10 million with one company (Image Communications, Inc.) funded. The semiconductors sector was fourth largest in the second quarter of 2010 with one company (Pervasive, Inc.) receiving \$6 million.

SUMMARY OF NATIONAL & REGIONAL VENTURE CAPITAL

Region		2007	2008	2009	2008 Q2	2009 Q2	2010 Q1	2010 Q2
United States	Total (in Billions)	\$30.5	\$28.0	\$18.1	\$7.3	\$4.3	\$4.9	\$6.5
	# of Deals	4,027	3,985	2,893	1,066	705	740	1,646
	Average (in Millions)	\$7.6	\$7.0	\$6.2	\$6.9	\$6.1	\$6.6	\$4.0
California Total	Total (in Billions)	\$14.6	\$14.0	\$9.1	\$4.0	\$2.0	\$2.2	\$3.8
	# of Deals	1,663	1,626	1,185	434	283	299	369
	Average (in Millions)	\$8.8	\$8.6	\$7.7	\$9.2	\$7.2	\$7.4	\$10.2
Northern CA	Total (in Billions)	\$11.0	\$10.8	\$7.2	\$5.0	\$1.583	\$1.6	\$2.9
	# of Deals	1,273	1,251	871	327	214	219	278
	Average (in Millions)	\$8.6	\$8.6	\$8.3	\$15.4	\$7.4	\$7.3	\$10.5
Southern CA	Total (in Billions)	\$3.6	\$3.2	\$1.9	\$0.9	\$0.5	\$0.6	\$0.9
	# of Deals	390	375	266	107	69	80	91
	Average (in Millions)	\$9.3	\$8.5	\$7.0	\$8.9	\$6.6	\$7.9	\$9.4
San Diego	Total (in Billions)	\$1.9	\$1.2	\$0.9	\$0.36	\$0.26	\$0.23	\$0.17
	# of Deals	167	132	107	39	26	31	24
	Average (in Millions)	\$11.6	\$9.0	\$8.4	\$9.3	\$9.9	\$7.3	\$7.1

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

The percentage of total VC investment going to start-up and early stage San Diego companies jumped to 71% of the total invested in the second quarter of 2010 from the previous quarter when 42% went to start-up and early stage companies. Financing of later stage companies decreased to 14% of the total in San Diego compared to 38% in the first quarter of 2010.

NUMBER AND VALUE OF SAN DIEGO M&A DEALS DOUBLE VERSUS Q2 2009

In San Diego, 40 deals were closed in the second quarter of 2010 – nearly double the 24 deals closed in the second quarter of 2009. San Diego M&A deals totaled over \$300M in the second quarter – more than double the amount reported in the second quarter of 2009, but down 62% from the first quarter of 2010. The second quarter of 2010 saw the number of M&A deals jump 65% across California compared to the previous quarter. The value of reported deals closed statewide in the second quarter of 2010 was \$11.3 billion – down 41% compared to the first quarter of 2010, but nearly four times that of Q2 2009. For more data on initial public offerings (IPOs), follow-on equity offerings and private placement issuance in San Diego and California, see the full Report below.

REGIONAL M&A DEALS – Q2 2010

Region		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Totals	2010 Q1	2010 Q2
Northern CA	Total Reported Value (in Millions)	\$4,949	\$1,866	\$2,520	\$17,134	\$26,469	\$17,069	\$8,456
	# of Closed Deals	91	89	155	136	471	195	304
Southern CA	Total Reported Value (in Millions)	\$6,195	\$1,169	\$1,827	\$3,181	\$12,372	\$19,127	\$2,828
	# of Closed Deals	103	74	134	131	442	153	269
San Diego	Total Reported Value (in Millions)	\$2,703	\$139	\$99	\$1,250	\$4,191	\$845	\$317
	# of Closed Deals	42	24	32	29	127	46	40

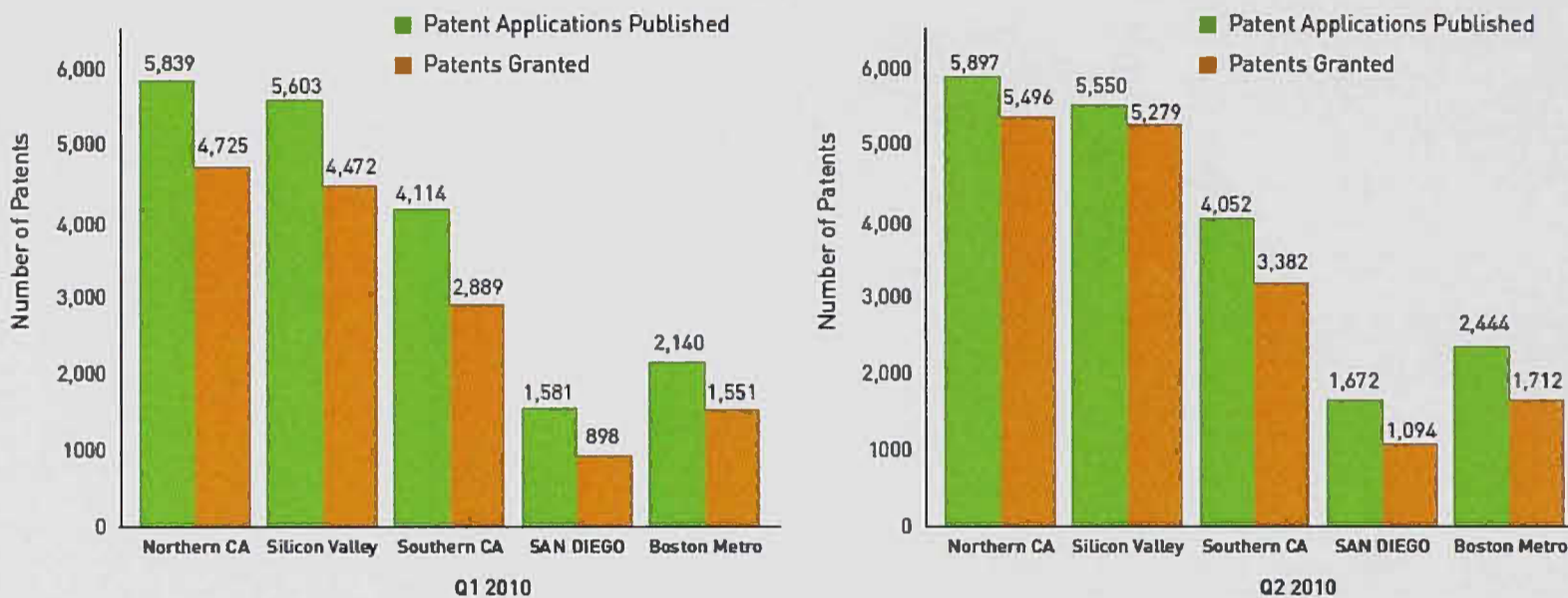
Note: Not all M&A deals report a disclosed \$ value. Total deal values are in fact higher than those shown in the table above.
Source: Capital IQ; Roth Capital Partners

CONNECT INNOVATION REPORT EXECUTIVE SUMMARY (CON'T)

SAN DIEGO PATENTS HIT TWO-YEAR HIGH

In San Diego, 1,094 patents were granted in the second quarter of 2010, up 22% compared to the previous quarter when 898 patents were granted. This was the most granted in the past two years. Patent applications published also hit a two-year high in the second quarter of 2010, up 6% with 1,672 patents published compared to 1,551 in the first 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.

REGIONAL PATENT ACTIVITY Q1 2010 vs. Q2 2010

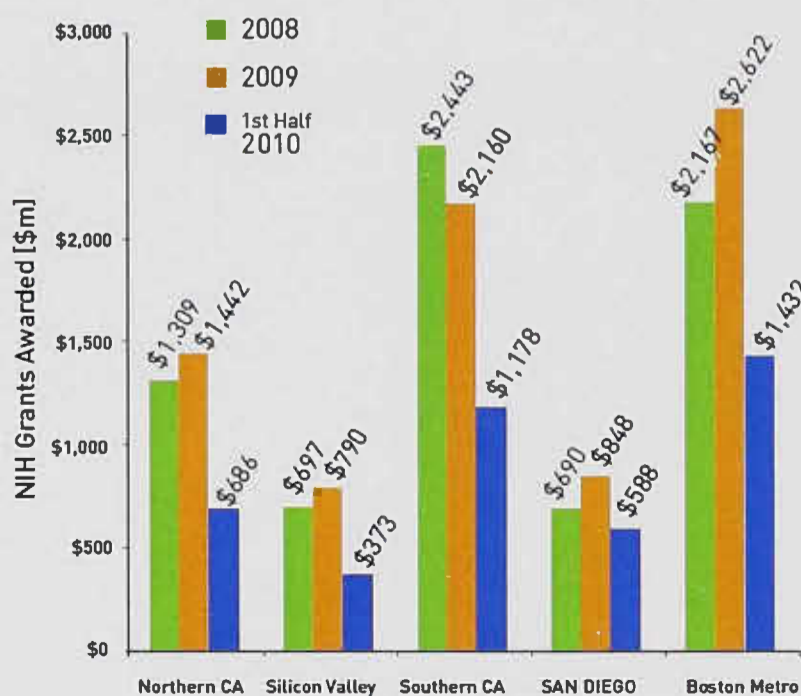


Source: United States Patent and Trademark Organization; UC San Diego Extension

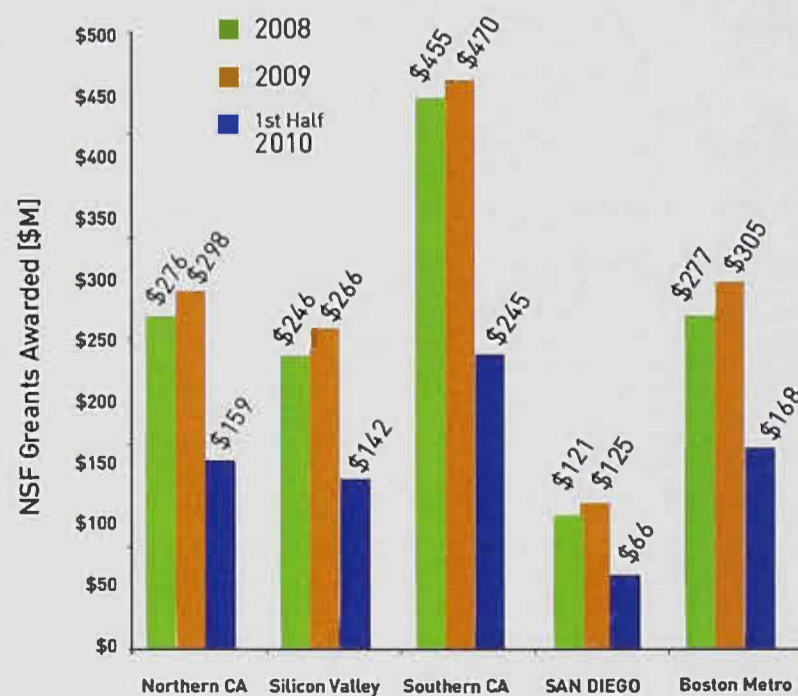
FEDERAL GRANT FUNDING TO SAN DIEGO HITS TWO-YEAR HIGH

Federal grant funding continued to far exceed VC investment in San Diego in the second quarter by more than 120%. Federal grant funding awarded in San Diego from the National Institutes of Health (NIH), the National Science Foundation (NSF), National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA) jumped 35% to \$383 million in the second quarter of 2010 from \$286 million in the first quarter of 2010. NIH funding accounted for the majority of the increase with over \$340 million, the largest quarterly award total in over two years. NSF funding to San Diego in the second quarter remained consistent with the previous quarter with \$33.5 million. Research grants from the NASA and NOAA to San Diego organizations were up 28% with a combined total of \$8.5 million in the second quarter of 2010.

REGIONAL NIH FUNDING



REGIONAL NSF FUNDING



Source: NIH, NSF; UC San Diego Extension

CONNECT INNOVATION REPORT Q2 2010 - FULL REPORT

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA

NEW QUARTERLY CONNECT INNOVATION REPORT SHOWS FORMATION OF NEW TECH START-UPS IN SAN DIEGO UP OVER 80 PERCENT IN Q2 2010; TECH SECTOR WAGES 90% HIGHER THAN AVERAGE.

INNOVATION START-UPS

CONNECT's newly released Second Quarter 2010 Innovation Report shows 64 new technology start-ups were formed in San Diego in the second quarter of 2010. This was an increase of 83% from the first quarter of 2010 and a decrease of 37% from the second quarter of 2009. These companies created over 250 new jobs in San Diego. Recent data provided by the National University System for Policy Research (NUSPR) for CONNECT 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 wages and pays 90% more than the overall average industry wage.



“Because technology based jobs tend to be higher paying, they also have higher economic value for the region, said Kelly Cunningham, Economist and Senior Fellow, National University System Institute for Policy Research. “The multiplier effect from technology employment means many other jobs are supported by the spending of technology based jobs. This means for every technology job in San Diego, another one to two jobs are directly sustained or dependent upon those jobs in the region,” said Cunningham.

SAN DIEGO INNOVATION START-UPS BY QUARTER



Source: CONNECT; National University System Institute of Policy Research

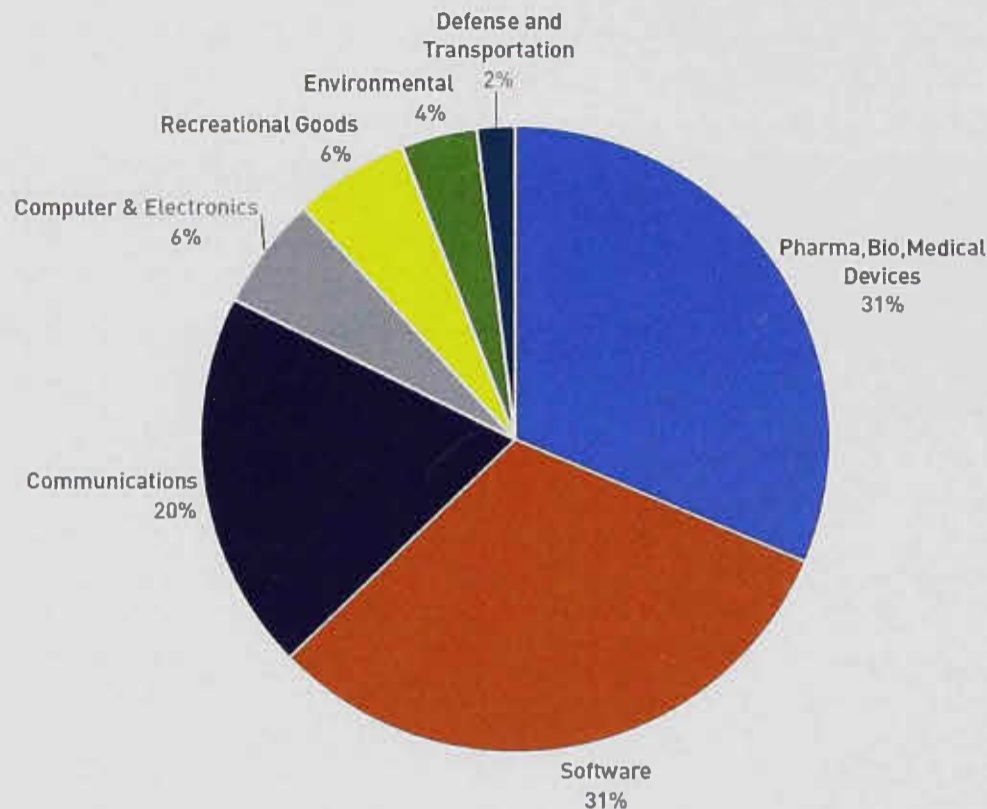
Statewide, San Diego accounted for 11% of new technology businesses in the second quarter of 2010, ranking fourth after Los Angeles (LA) and Santa Clara and Orange County. San Diego had 64 start-ups, up from 35 in the previous quarter while LA had 123 startups, up slightly from 121, Santa Clara had 89, up from 56, and Orange County had 77 up from 48 start-ups in the first quarter of 2010.

There were substantial increases in the second quarter in the number of new start-ups compared to the first

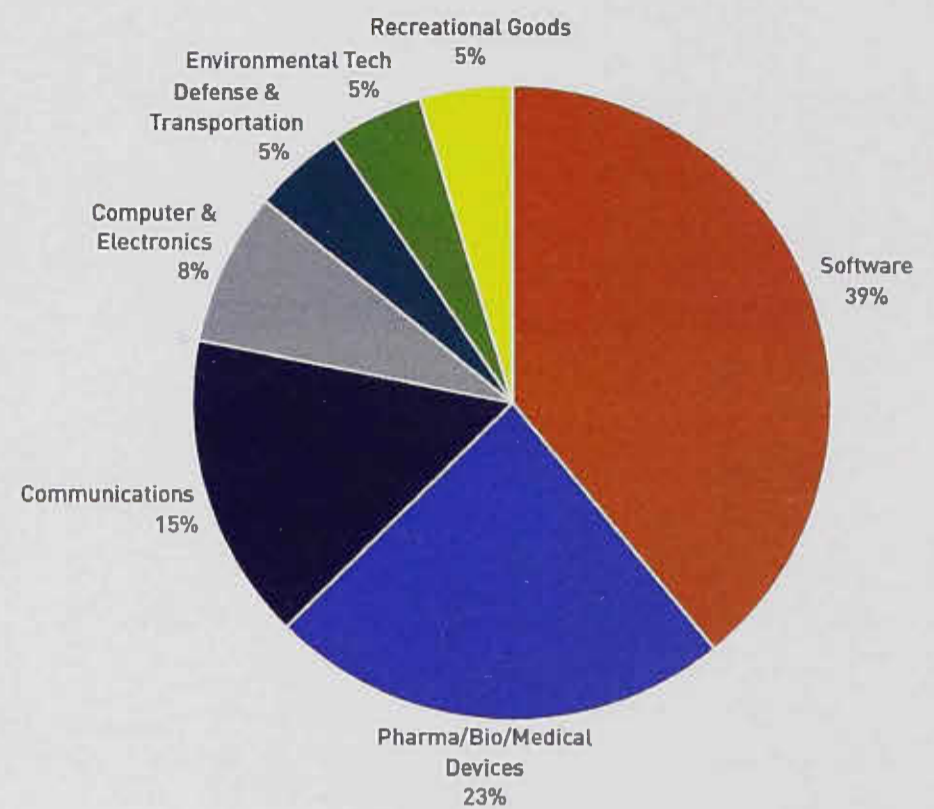
quarter of 2010 across almost all tech sectors. San Diego's software sector led the pack with 25 start-ups, more than double the 11 established in the first quarter of 2010 and ranked third statewide after LA's 38 and Santa Clara's 34 software start-ups. San Diego also ranked third statewide in life science start-ups with 15 new companies after LA and Santa Clara each with 20 new companies. The number of San Diego life science start-ups was up 88% in the second quarter. San Diego's communications sector ranked third in the state with 10 start-ups, behind LA with 28 new companies and Orange County with 13. The computer and electronics sector had five start-ups, down slightly from seven in the first quarter. Defense and transportation, environmental technology and recreational goods manufacturing sectors were all up slightly in the second quarter of 2010 with three start-ups each.

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

San Diego Q1 2010 – 35 New Companies



San Diego Q2 2010 – 64 New Companies



Overall, almost 260 jobs were created by San Diego's new tech companies in the second quarter of 2010. The software sector created 75 jobs, while the life sciences sector led the pack with 104 jobs. The communications sector new jobs jumped 153% from the first quarter of 2010 to 43. Defense and transportation start-ups jobs showed the largest increase in over a year with 17 new jobs in the second quarter. The environment technology (cleantech) sector was down substantially from previous quarters with 7 new jobs in the second quarter of 2010 due to there being only three start-ups in that sector in the second quarter.

SAN DIEGO TECH START-UPS: NEW EMPLOYMENT – Q1 2009 to Q2 2010

Tech Sector	2009 # of Employees	Q1 2009 # of Employees	Q2 2009 # of Employees	Q3 2009 # of Employees	Q4 2009 # of Employees	Q1 2010 # of Employees	Q2 2010 # of Employees
Software	318	43	138	67	69	32	75
Pharma/Bio/Medical	280	50	117	37	76	35	104
Environmental Technology	155	53	45	35	22	46	7
Communications	139	22	38	52	26	17	43
Computer and Electronics	102	9	37	45	11	4	10
Defense and Transportation	62	51	0	11	0	4	17
Recreational Goods	14	3	6	0	5	4	3
TOTAL	1,069	231	382	247	209	142	259

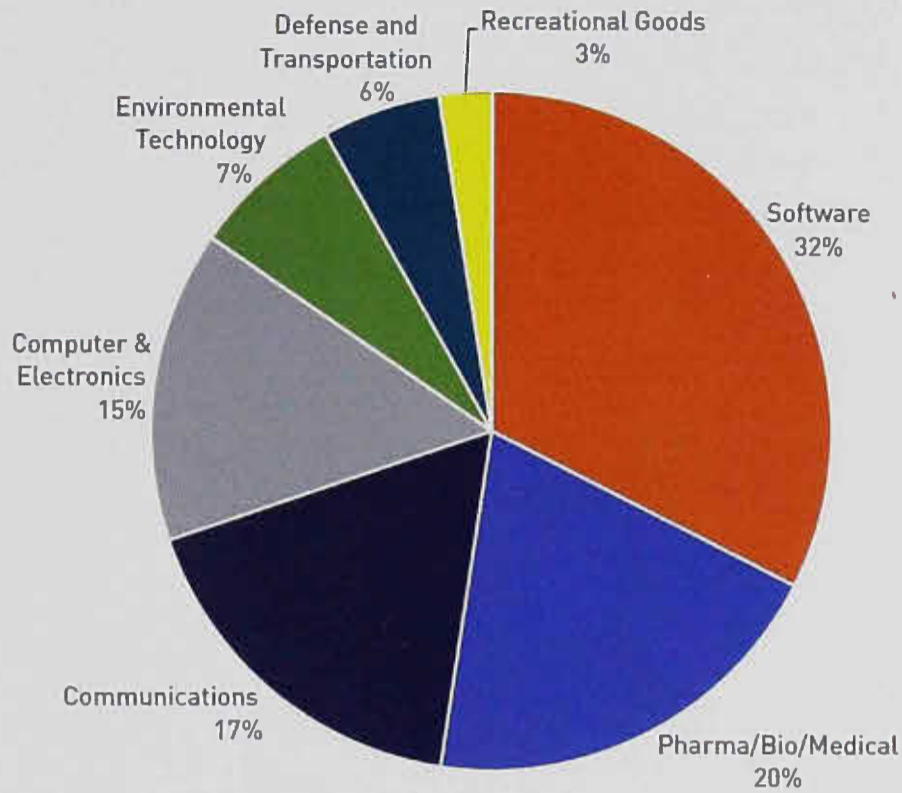
Source: CONNECT; National University System Institute for Policy Research

CALIFORNIA TECH START-UPS BY INDUSTRY SECTOR: Q1 2010 versus Q2 2010

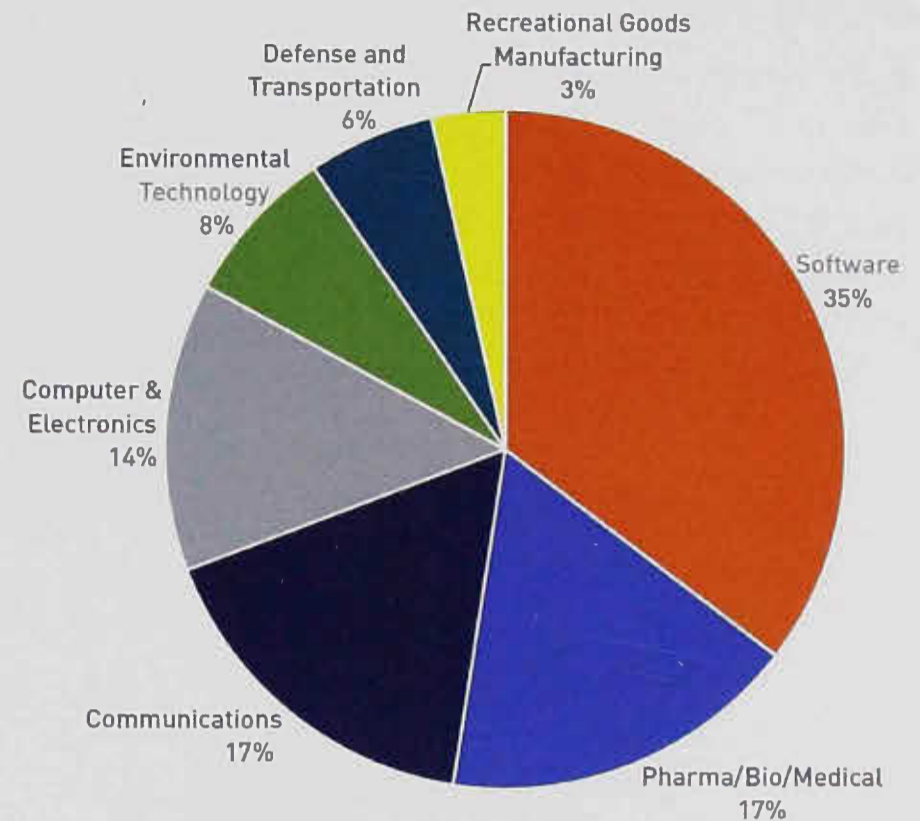
California overall showed a jump in start-up creation in the second quarter of 2010 with 597 new technology companies established compared to 357 in the first quarter – a 67% increase. This was down 18% from the second quarter of 2009 when 729 companies were started. The state's software sector again accounted for the highest number of technology start-ups in the second quarter of 2010 with 211 new companies statewide, up 82% from the first quarter. The life sciences sector was the second largest sector in the state with 102 start-ups, up 44% from 71 companies in the first quarter of 2010. Overall, 2,400 new jobs were created in the California's innovation economy in the second quarter of 2010.

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

California Q1 2010 – 357 New Companies



California Q2 2010 – 597 New Companies

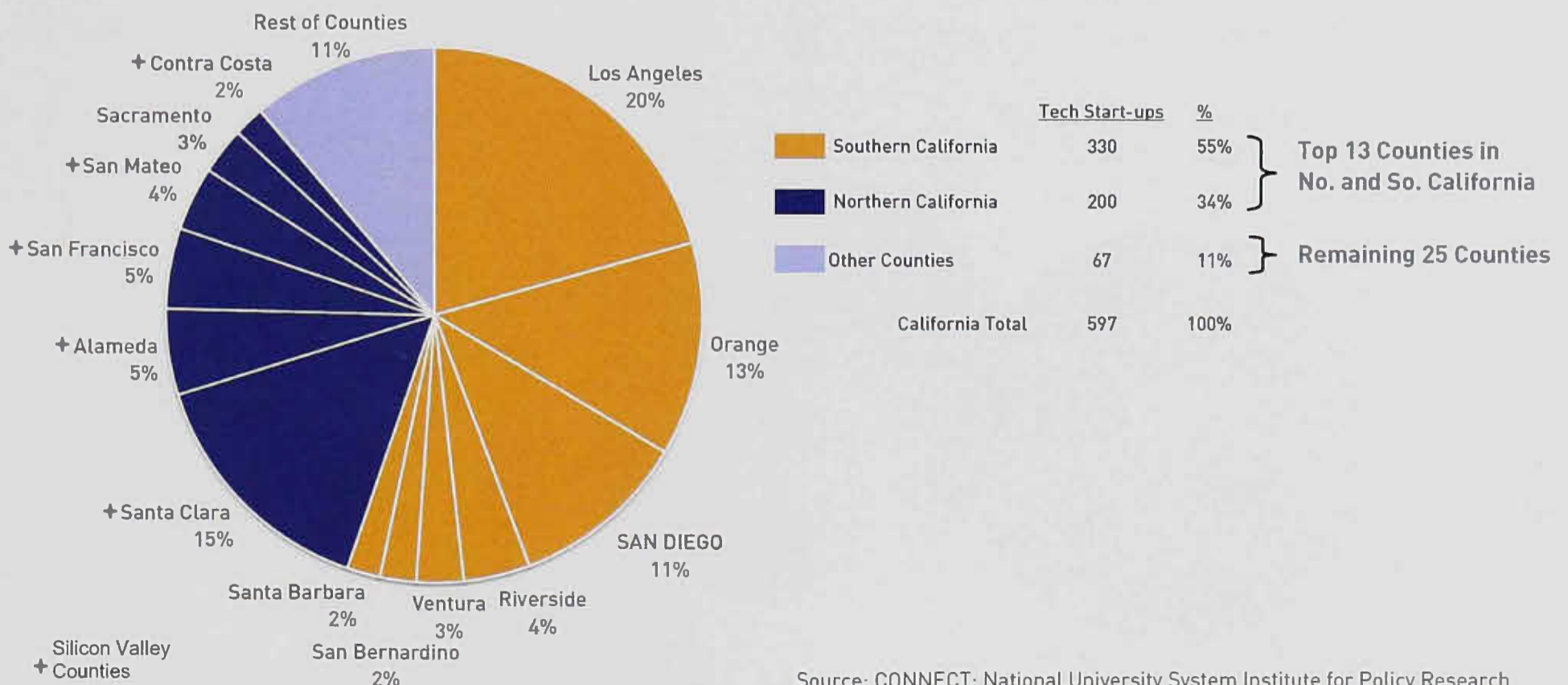


Source: CONNECT; National University System Institute of Policy Research

CALIFORNIA INNOVATION START-UPS: BY COUNTY – Q2 2010

In California, the top 13 counties accounted for nearly 90% of the 597 tech start-ups in the second quarter. Southern California represented 55% of the technology start-ups established in the second quarter of 2010 with 330 technology companies established, up from the 256 established in the first quarter of 2010. The Silicon Valley/Sacramento region accounted for 34% of the start-ups with over 200 new technology companies, up from 120 in the previous quarter. The remaining counties in the state accounted for just 67 new technology companies, or 11% of the total number of innovation companies established in the second quarter of 2010.

California Innovation Start-ups by County – Q2 2010
597 Companies Statewide



Source: CONNECT; National University System Institute for Policy Research

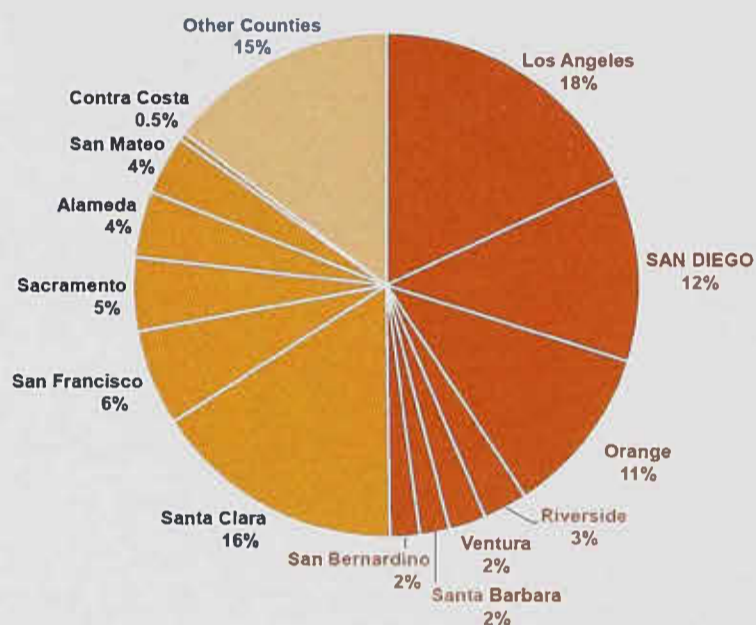
INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

CALIFORNIA INNOVATION START-UPS BY INDUSTRY SECTOR AND COUNTY

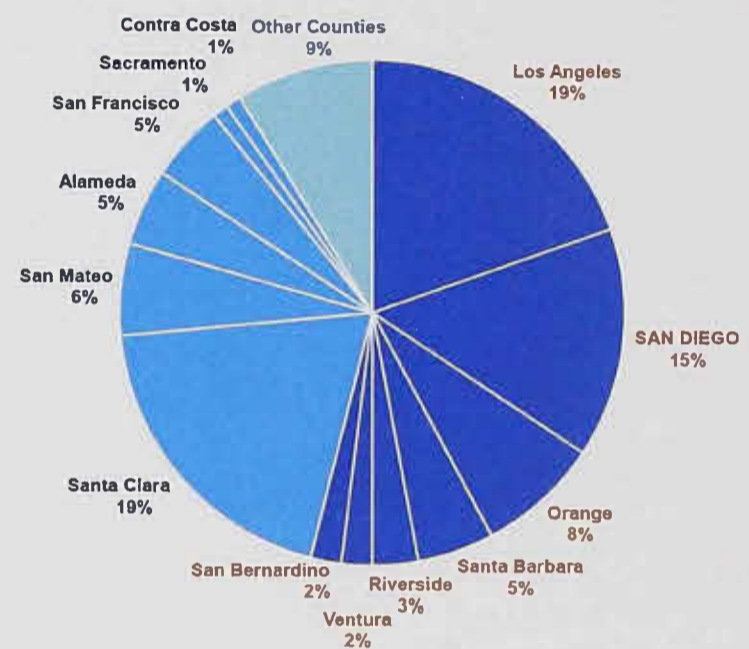
Software and Life Sciences Sectors – Q2 2010

In the second quarter of 2010, Los Angeles (LA) County had the most software start-ups with 38 new companies, followed by Santa Clara County with 34 companies, San Diego County with 25 and Orange County with 23 new companies. The software sector was up substantially (82%) from the first quarter of 2010, and down slightly (five percent) from the first quarter of 2009. LA County and Santa Clara County led the state in the second quarter in the life sciences sector, with 20 new companies each, followed by San Diego with 15 and Orange County with eight. The number of life science start-ups in the second quarter of 2010 was up 44% over the first quarter of 2010 but down 45% from the previous year's second quarter.

Software Sector
211 Companies



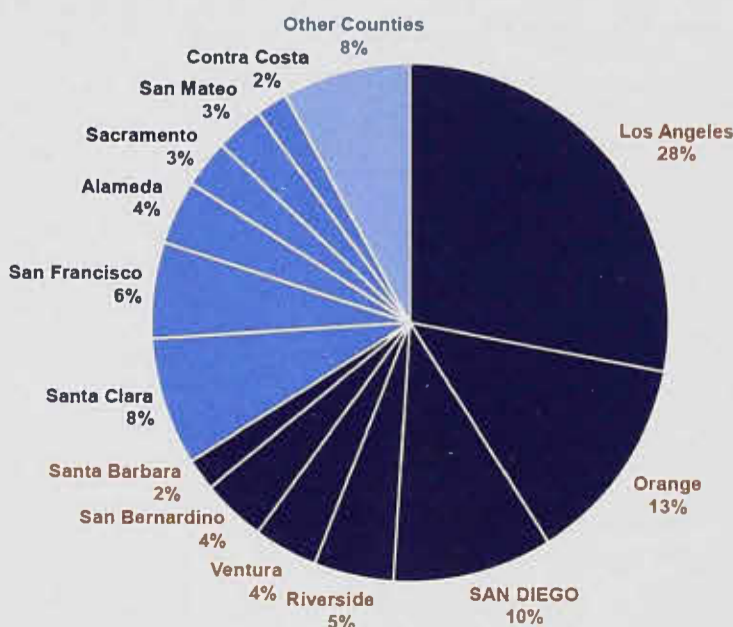
Pharma/Biotech/Medical Device Sector
97 Companies



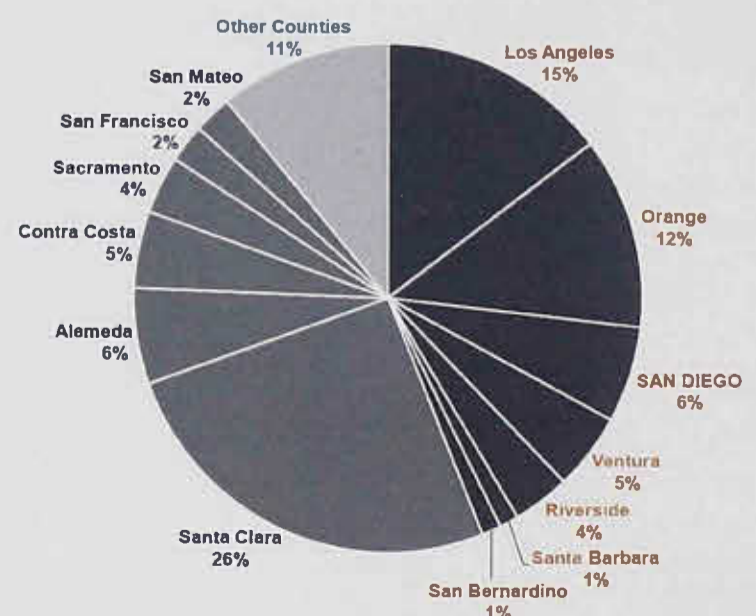
Communications and Computers & Electronics Sectors – Q2 2010

LA County had the most communications start-ups in the first quarter with 28 companies, followed by Orange County with 13 start-ups and San Diego County with 10. New company formation in the sector was up 61% from the previous quarter and up 11% from the previous year's quarter. The computers and electronics sector was also up 55% with 82 new companies compared to the 53 companies formed in the first quarter of 2010. The sector was down 33% from the second quarter of 2009. Santa Clara County led the state with 21 new computers and electronics companies in the second quarter of 2010 followed by Los Angeles County with 12 start-ups and Orange County with 10.

Communications Sector
100 Companies



Computers & Electronics Sector
82 Companies



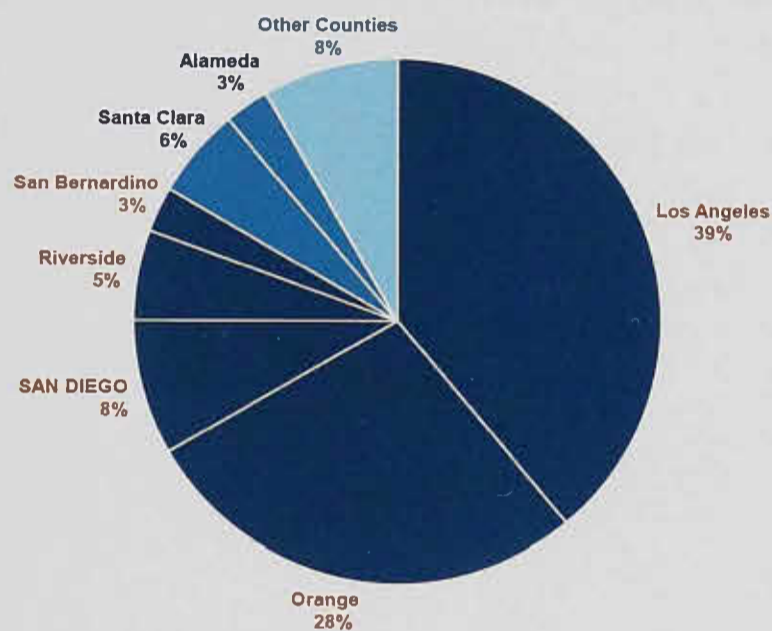
INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

CALIFORNIA INNOVATION START-UPS BY INDUSTRY SECTOR AND COUNTY

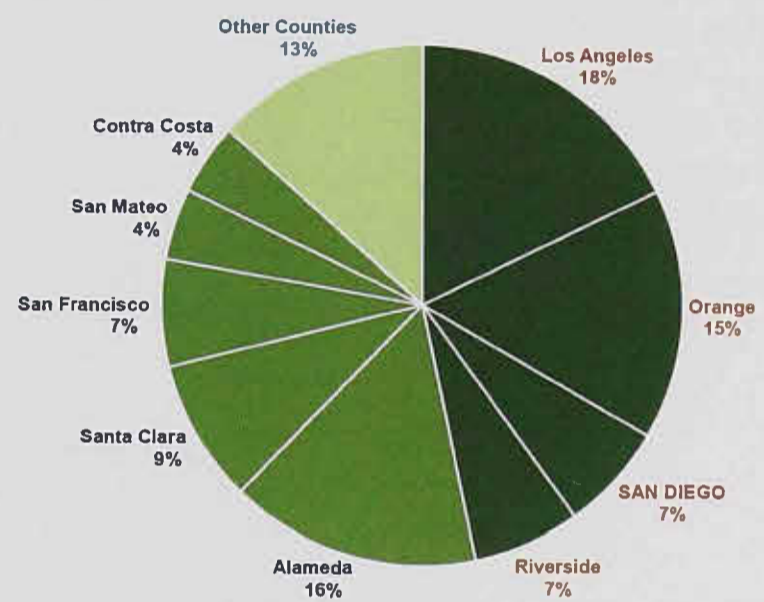
Defense and Transportation and Environmental Technology Sectors – Q2 2010

Los Angeles County led the state with 14 defense and transportation start-ups in the second quarter of 2010, followed closely by Orange County with 10. Southern California accounted for 83% of state's tech start-ups in this sector. Thirty-six start-ups were established - up 80% from first quarter 2010, and up 29% over the second quarter of 2009. Start-up formation in the environmental technology (cleantech) sector was distributed relatively evenly across the state in the second quarter, with 45 new companies started, led by Los Angeles County with eight start-ups and Alameda and Orange Counties with seven. Start-ups were up 73% from the 23 companies started in the first quarter of 2010, but down 33% from the second quarter of 2009 when 67 new companies were established in the sector.

Defense and Transportation Sector
36 Companies



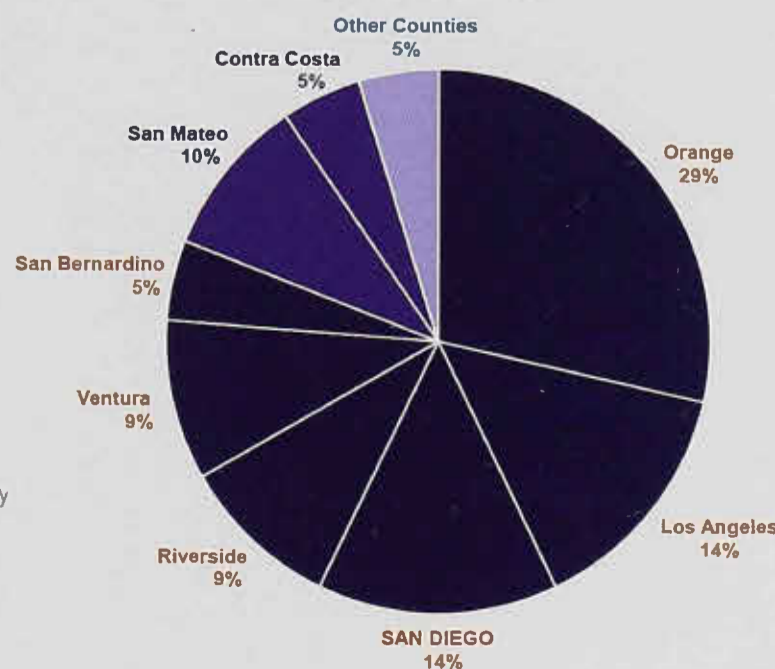
Environmental Technology Sector
45 Companies



Recreational Goods Manufacturing Sector – Q2 2010

There were 21 recreational goods manufacturing sector start-ups statewide in the second quarter of 2010 – more than double the number formed in the first quarter. The sector was up 120% from the nine start-ups in the first quarter of 2010 and up 40% from the 15 companies started in the second quarter of 2009. Southern California accounted for 80% of the state's start-ups in the sector, led by Orange County with six start-ups.

Recreational Goods Manufacturing Sector
21 Companies



Source: CONNECT; National University System Institute for Policy Research

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

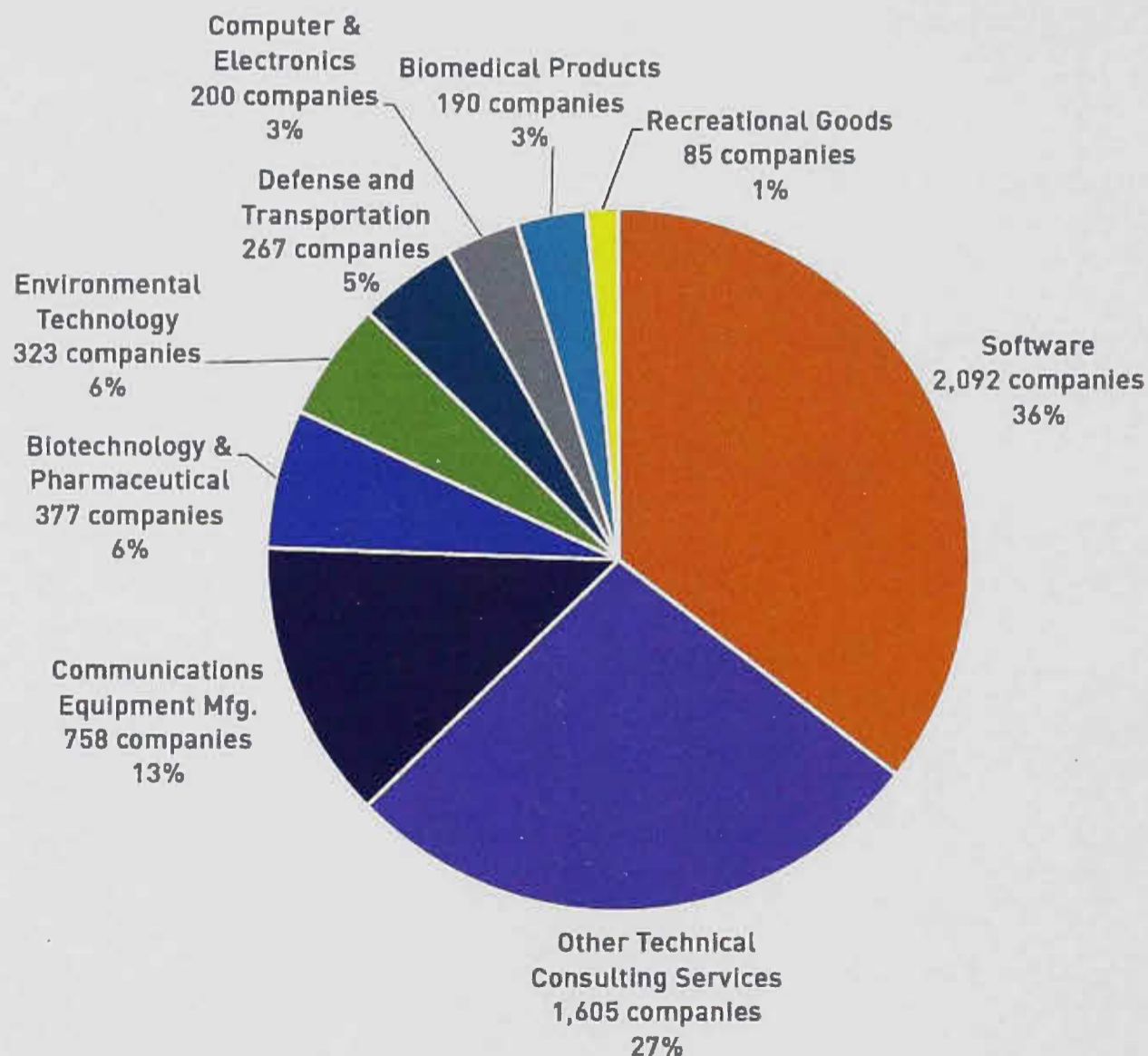
Working in partnership with National University System Institute for Policy Research (NUSIPR), CONNECT has added employer employment and wage data for all technology companies in San Diego - both start-ups and established tech companies. Newly added in this quarter's Report are data on the number of jobs in two other key regions of the state - Santa Clara and Orange County.

TOTAL EMPLOYER AND EMPLOYMENT DATA FOR SAN DIEGO'S INNOVATION ECONOMY

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 5,900 as of the fourth quarter 2009, with nearly 137,600 employees and \$3.5 billion total annual payroll. To put this in perspective, technology companies represent only six percent 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 (Q4 2009). 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 nearly 600 companies. The environmental technology sector, which includes many of the cleantech industry companies, represents approximately six percent of the total technology sector with 320 companies.

**Total Number of San Diego Technology Companies
By Industry Sector
5,900 Private Companies**



Source: National University System Institute for Policy Research; EDD Q4 2009 Data

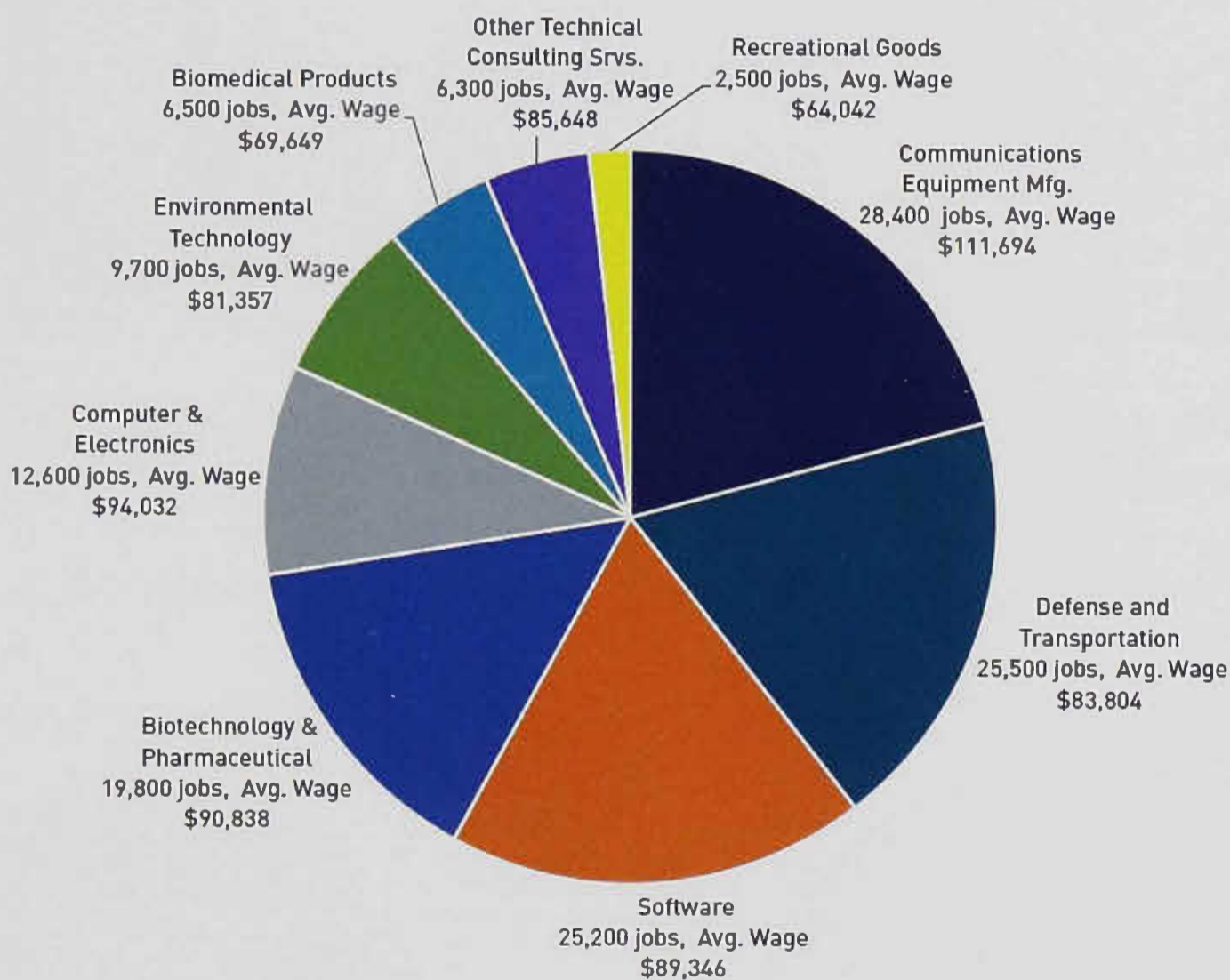
INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

TOTAL EMPLOYER AND EMPLOYMENT DATA FOR SAN DIEGO'S INNOVATION ECONOMY (CON'T)

Four industry sectors represented nearly 80% of San Diego's innovation economy in the second quarter of 2010. Communications equipment manufacturing was the largest with 28,400 jobs in the second quarter of 2010. The life sciences sector, which includes biotech, pharma and biomedical devices, was the second largest with just over 26,000 jobs followed by defense and transportation and software with over 25,000 jobs each. The computer and electronics sector represented nine percent of San Diego's tech employment with 12,600 jobs. Environmental technology companies employed nearly 10,000 workers and represented seven percent of tech jobs. Technical consulting services companies employed over 6,000 workers in the second quarter. Although this sector was the second largest in terms of the number of companies in San Diego's innovation economy, these firms are generally smaller companies employing about four people.

San Diego County Technology Sector Employment by Cluster Q2 2010

136,500 Jobs



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

COMPARATIVE EMPLOYMENT DATA: SAN DIEGO, SANTA CLARA AND ORANGE COUNTIES

For the first time, a methodology has been developed by the NUSPR for CONNECT to provide new data showing the economic impact of the technology sector in three key regions in California. The data has been derived from California Employment Development Department "Quarterly Census of Employment and Wages" (QCEW) program. Monthly employment estimates show that San Diego's tech sector represents for over 12% of California's total tech jobs with over 136,500 employees. Santa Clara County has over 200,000 tech jobs and Orange County has nearly 122,000.

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

COMPARATIVE EMPLOYMENT DATA: SAN DIEGO, SANTA CLARA AND ORANGE COUNTIES

Regional Employment Comparison: San Diego, Santa Clara and Orange County Q2 2010

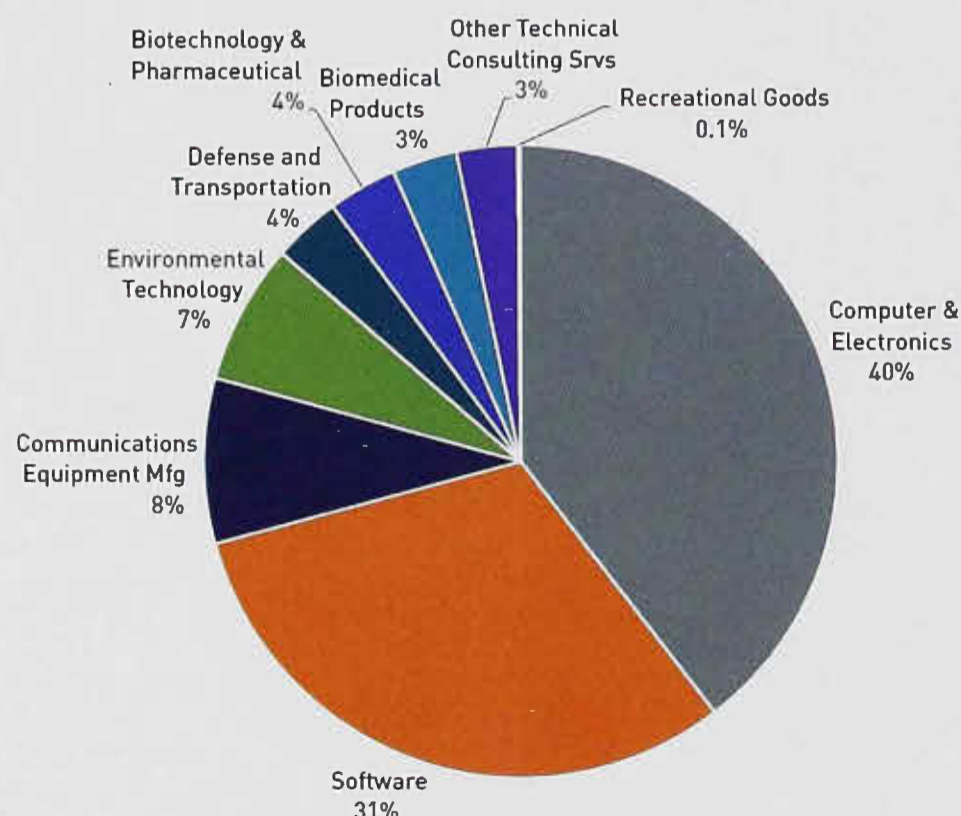
Number of Jobs	State of California	Selected Key Counties		
		San Diego	Santa Clara	Orange
Number of Jobs - All Industries	14,524,800	1,229,600	837,700	1,250,000
Number of Jobs - Private Industries	12,100,000	1,018,900	751,700	1,023,700
Number of Jobs - Tech Sector	1,121,500	136,500	202,800	121,500
Tech Sector Jobs as Percentage of Private Industries Employment	9.3%	13.4%	27.0%	11.9%
Tech Sector Jobs as Percentage of All Industries Employment	7.7%	11.1%	24.2%	9.7%
County Tech Sector Employment as Percentage of Total California Tech Employment		12.2%	18.1%	10.8%

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

Comparing the three regions across the individual technology clusters reveals wide variance in the concentration of jobs within each particular sector. Tech employment in Santa Clara County is highly concentrated in the computers and electronics and software sectors and it represents over 70% of total tech employment in the second quarter of 2010. While software and computers and electronics sectors also represent the largest number of jobs in Orange County with 43,200 employees they account for only 36% of total tech jobs in the county. The defense and transportation and biomedical devices and communications equipment manufacturing combined represent an additional 40% of the tech economy in Orange County.

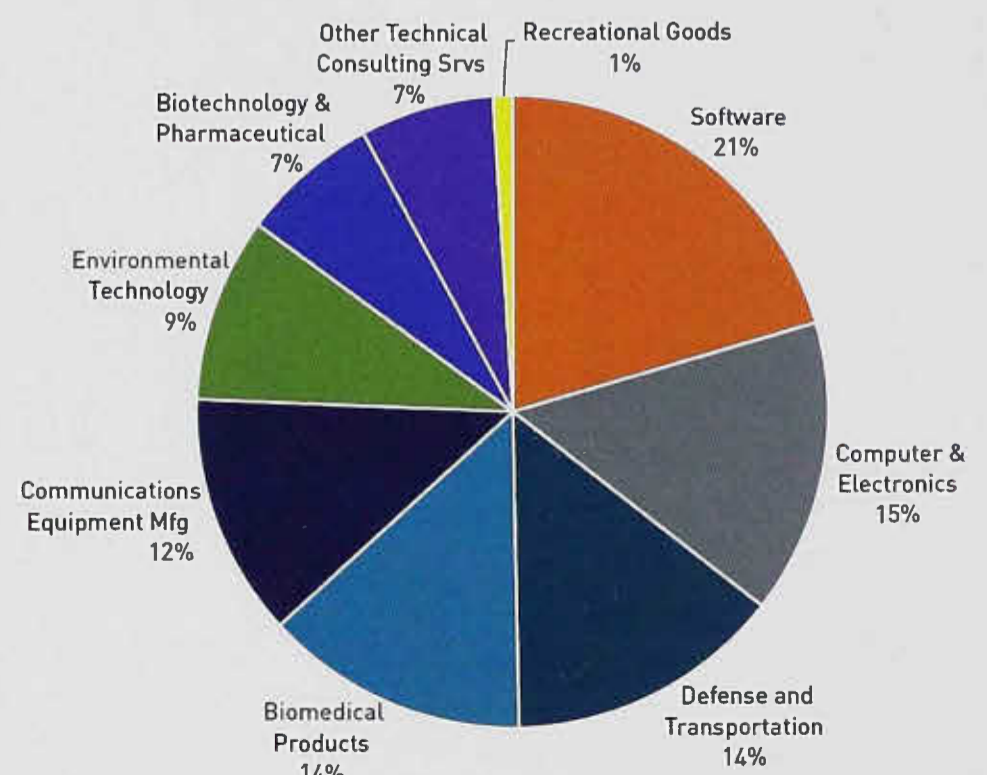
**Santa Clara County Technology Sector
Employment by Cluster
Q2 2010**

202,800 Jobs



**Orange County Technology Sector
Employment by Cluster
Q2 2010**

121,500 Jobs

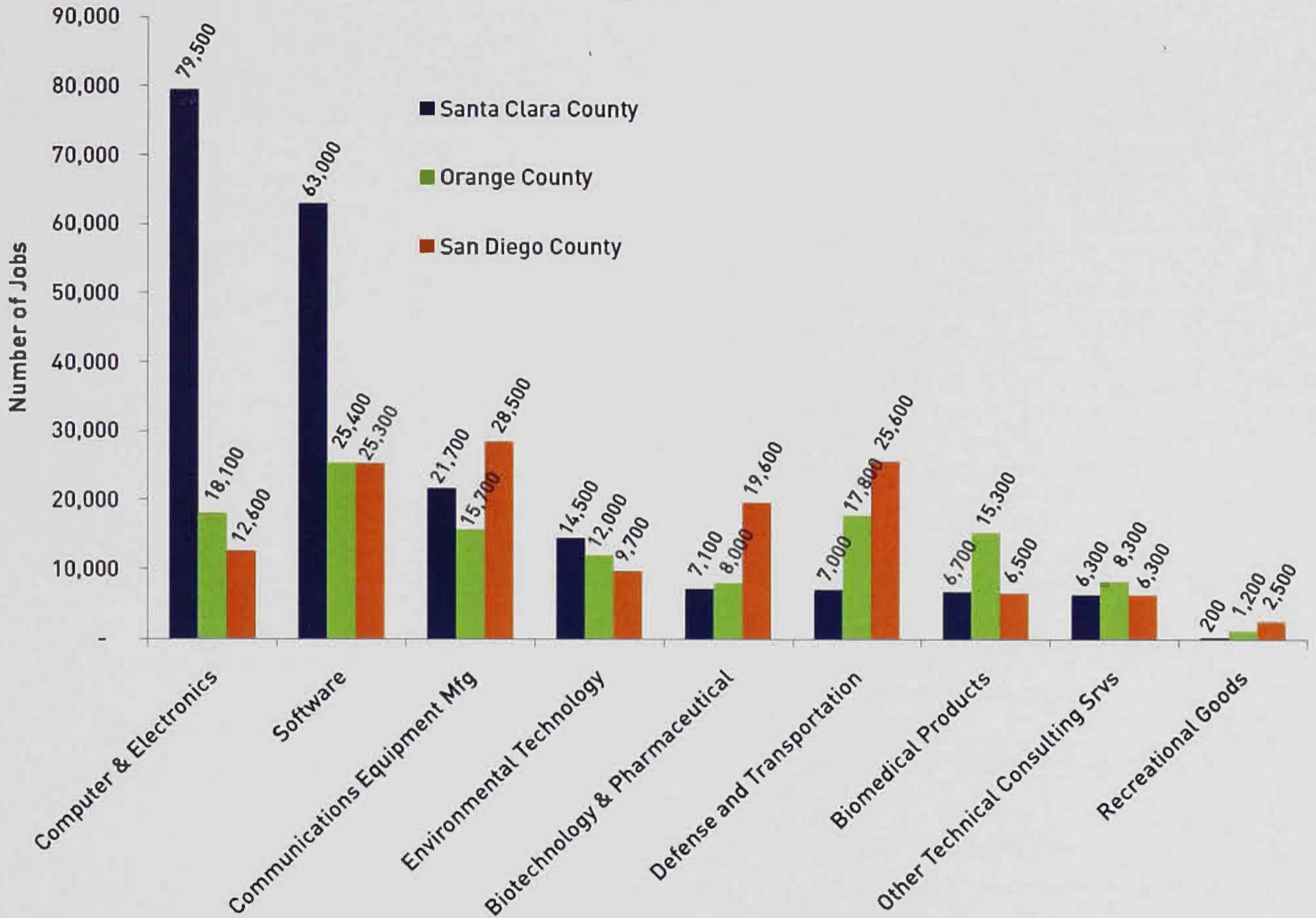


Source: National University System Institute for Policy Research; California Employment Development Department (EDD)

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

COMPARATIVE EMPLOYMENT DATA: SAN DIEGO, SANTA CLARA AND ORANGE COUNTIES

Regional Employment
Technology Sectors by Cluster
Q2 2010



Derived for CONNECT from California Employment Development Department "Quarterly Census of Employment and Wages" (QCEW) program, and monthly employment estimates. Technology sectors based upon NAICS codes defined, in part, by SANDAG Cluster Analysis and CONNECT technology definitions, with adjustments and estimates by National University System Institute for Policy Research.

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

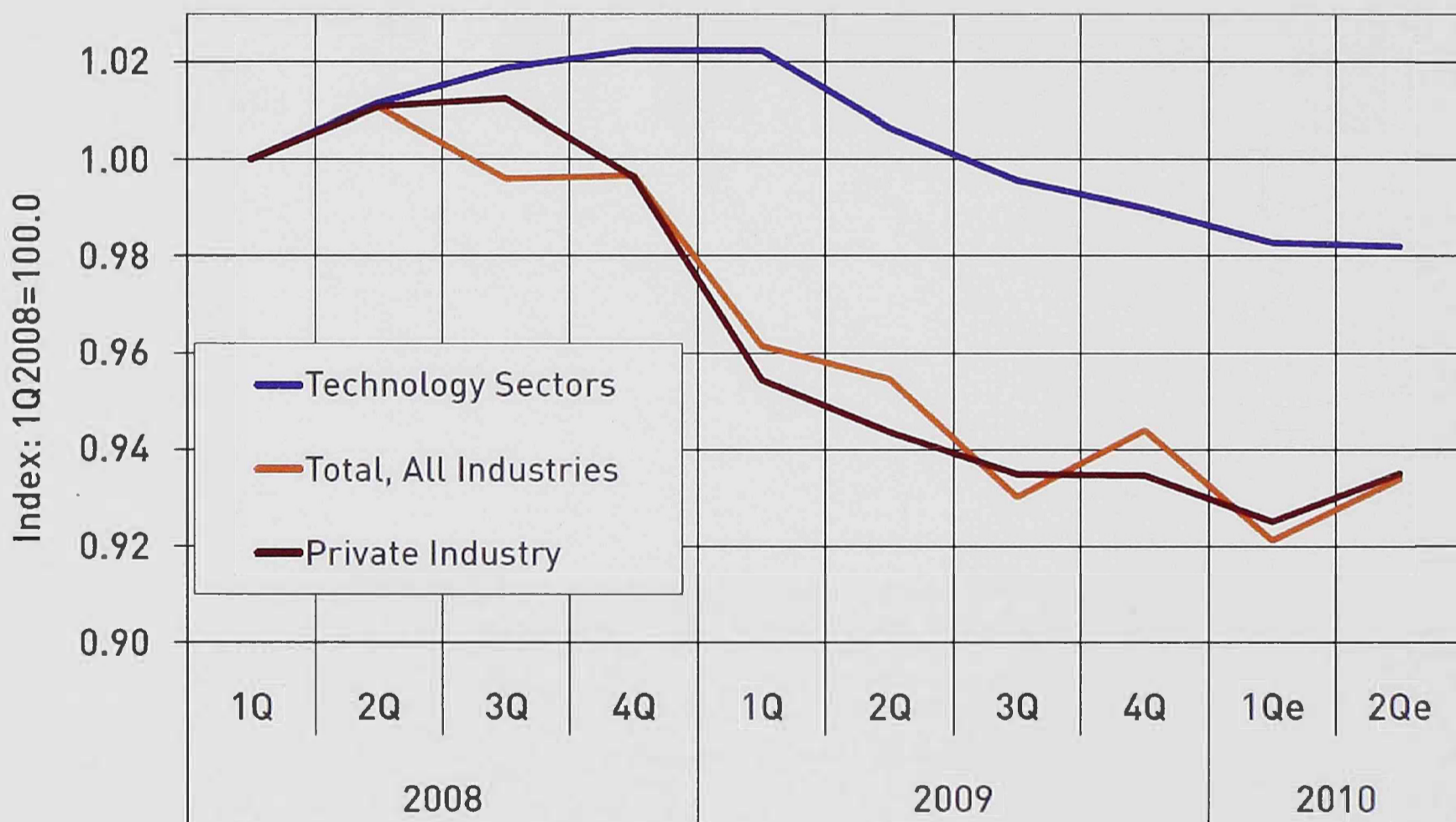
INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

EMPLOYMENT TRENDS AND SECTOR WAGES FOR SAN DIEGO'S INNOVATION ECONOMY

Cunningham observed, "The second quarter data shows technology jobs continued to decline, although the losses significantly leveled off, while San Diego's overall employment increased thanks to Census jobs in the second quarter. The surprisingly poorer performance of tech employment is largely due to weakness in manufacturing jobs. There is also a seasonal aspect to overall employment. Tech jobs are not as impacted by seasonal trends."

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 second quarter of 2010 fell 2.9%, or about 4,100 jobs, while total non-tech employment fell 8.1%. The biotechnology and pharmaceuticals sector showed an 8.2% increase in jobs while the technical consulting services, which includes professional service providers and contract services providers, was up nearly 7% in the second quarter of 2010 compared to two years prior. Worst hit has been the region's communications sector (shedding 2,200 jobs), the defense/transportation sector (a decline of 1,500 jobs) and the computers and electronics sector (down 1,200 jobs) since the second quarter of 2008. Total technology employment was estimated to be 136,500 at the end of the second quarter of 2010, down by only 100 jobs overall from the first quarter of 2010.

**Employment Trends in San Diego
Technology Sector by Cluster Versus All Industries
Q1 2008 – Q2 2010**



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

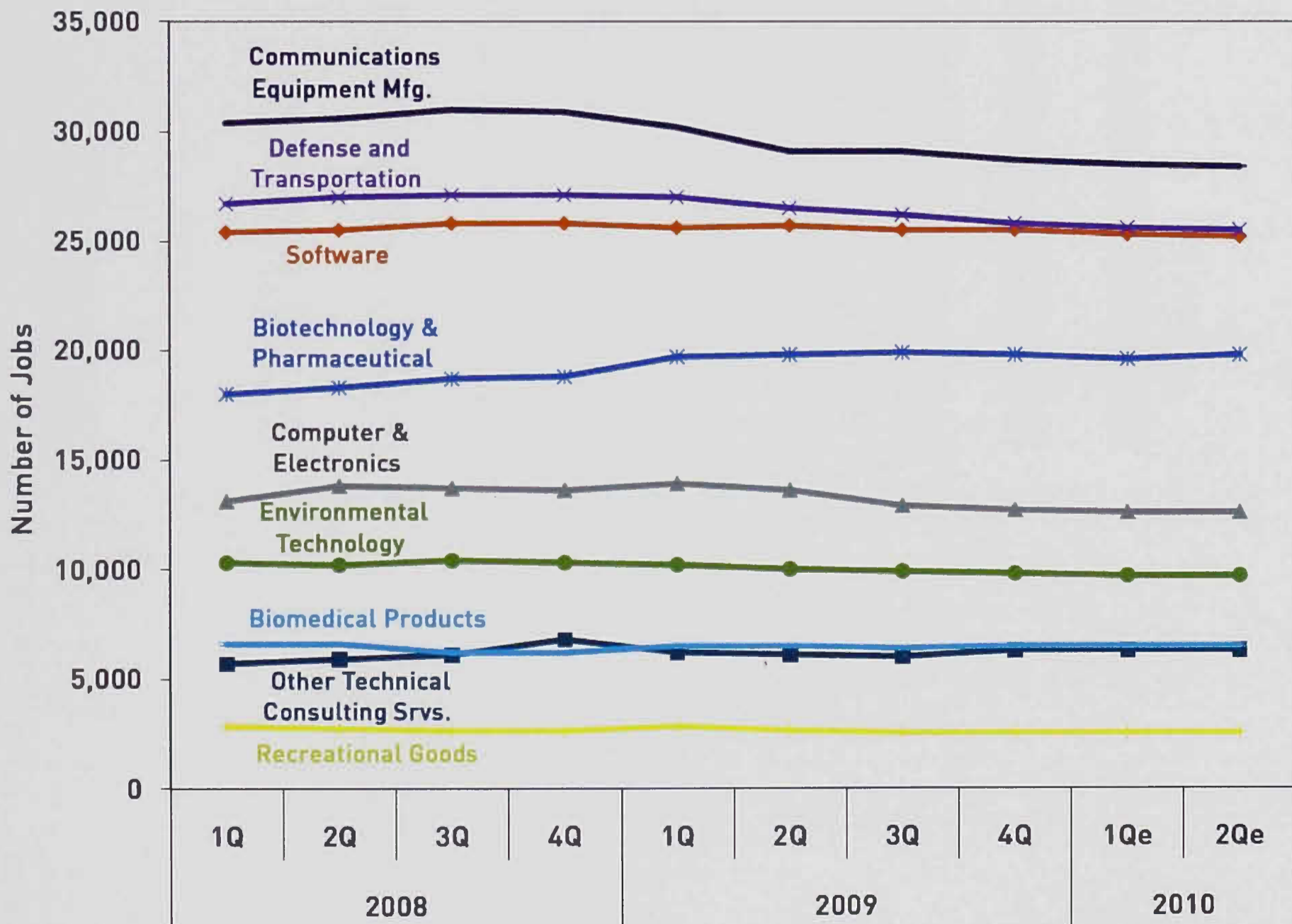
INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

EMPLOYMENT TRENDS AND SECTOR WAGES FOR SAN DIEGO'S INNOVATION ECONOMY (CON'T)

Total Employment in San Diego Technology Sector by Cluster Q1 2008 – Q2 2010

Employment	Actual								Estimate	
	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010
Total, All Industries	1,316,600	1,330,600	1,311,300	1,312,200	1,265,800	1,256,800	1,224,700	1,242,900	1,212,900	1,229,600
Total Private	1,089,700	1,101,400	1,103,200	1,085,700	1,040,000	1,028,300	1,018,800	1,018,500	1,008,100	1,018,900
TOTAL Technology	139,000	140,600	141,600	142,100	142,100	139,900	138,400	137,600	136,600	136,500
Communications Equipment Mfg.	30,400	30,600	31,000	30,900	30,200	29,100	29,100	28,700	28,500	28,400
Defense and Transportation	26,700	27,000	27,100	27,100	27,000	26,500	26,200	25,800	25,600	25,500
Software	25,400	25,500	25,800	25,800	25,600	25,700	25,500	25,500	25,300	25,200
Biotechnology & Pharmaceutical	18,000	18,300	18,700	18,800	19,700	19,800	19,900	19,800	19,600	19,800
Computer & Electronics	13,100	13,800	13,700	13,600	13,900	13,600	12,900	12,700	12,600	12,600
Environmental Technology	10,300	10,200	10,400	10,300	10,200	10,000	9,900	9,800	9,700	9,700
Biomedical Products	6,600	6,600	6,200	6,200	6,500	6,500	6,400	6,500	6,500	6,500
Other Technical Consulting Svcs.	5,700	5,900	6,100	6,800	6,200	6,100	6,000	6,300	6,300	6,300
Recreational Goods	2,800	2,700	2,600	2,600	2,800	2,600	2,500	2,500	2,500	2,500

Derived for CONNECT from California Employment Development Department "Quarterly Census of Employment and Wages" (QCEW) program, and monthly employment estimates. Technology sectors based upon NAICS codes defined, in part, by SANDAG Cluster Analysis and CONNECT technology definitions, with adjustments and estimates by National University System Institute for Policy Research.



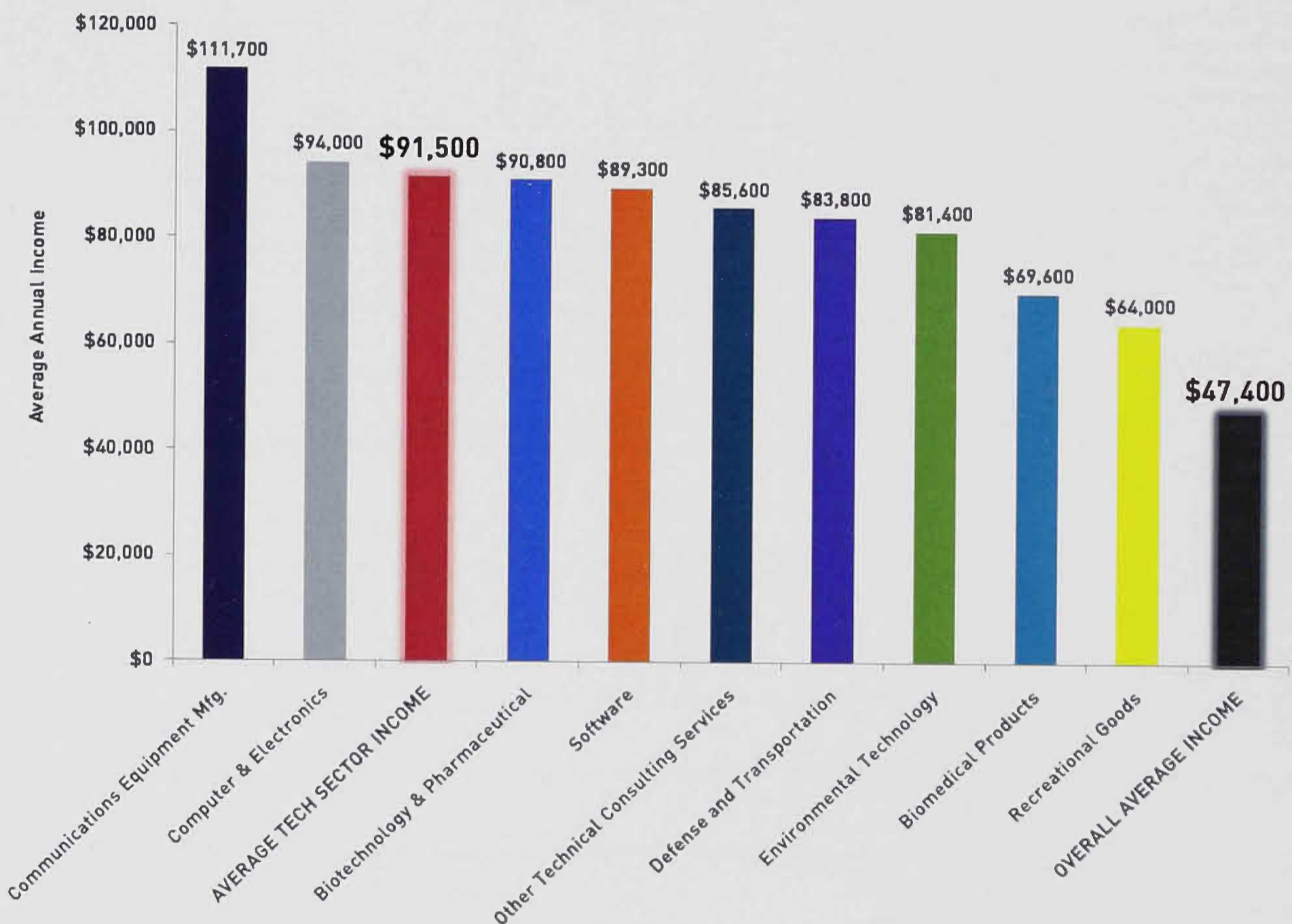
Source: National University System Institute for Policy Research; California Employment Development Department (EDD)

INNOVATION ECONOMY EMPLOYMENT AND WAGE DATA (CON'T)

EMPLOYMENT TRENDS AND SECTOR WAGES FOR SAN DIEGO'S INNOVATION ECONOMY (CON'T)

According to Kelly Cunningham, Economist and Senior Fellow at NUSIPR, "Average pay among tech firms was \$91,500, 90% higher than San Diego's overall average of \$47,400 per job." Based on the most recently available data from the California Employment Development Department (EDD) quarterly census of Employment and Wages, Cunningham's findings show San Diego's communications equipment manufacture workers have the highest wage at \$111,700, up 2.7% from the previous quarter's \$108,800. Computer and electronics wage was up 1.6% (\$94,000) from the previous quarter, followed by biotechnology and pharmaceuticals (\$90,800) and software (\$89,300), both sectors up 2.4%. The average wage was up 3.6% in the technical consulting services sector in the fourth quarter of 2009 from \$82,600 in the third quarter. Defense and transportation employees' average wage (\$83,800) and environmental technology (\$81,400) were up one percent. Cunningham provides the Innovation Report's economic analysis.

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



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

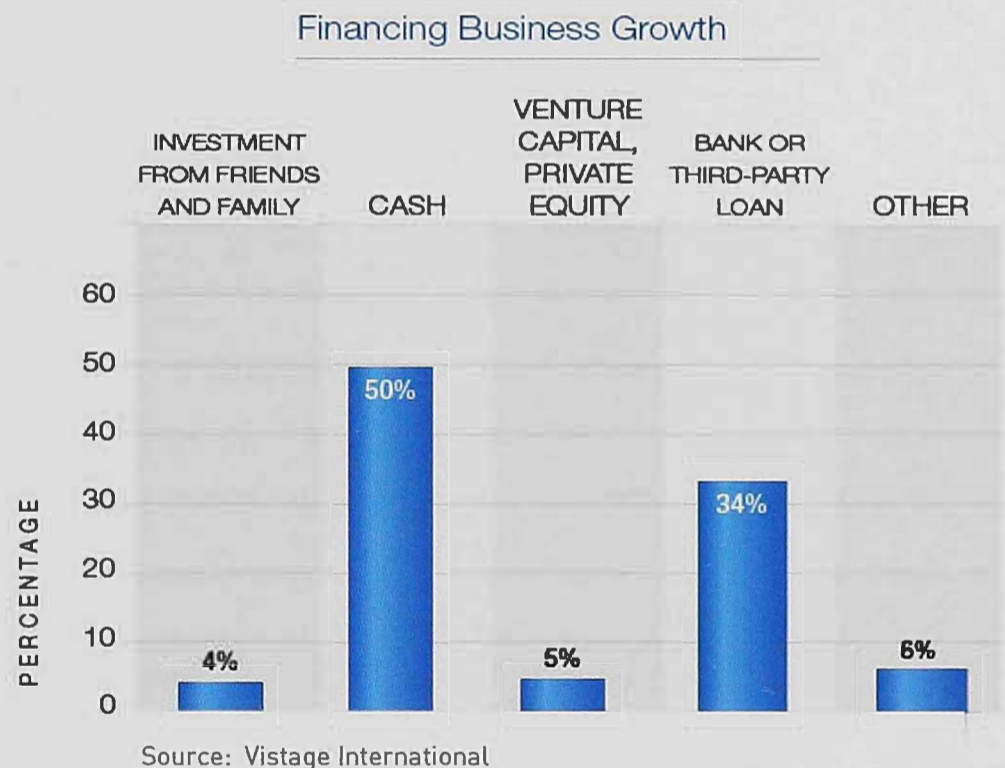
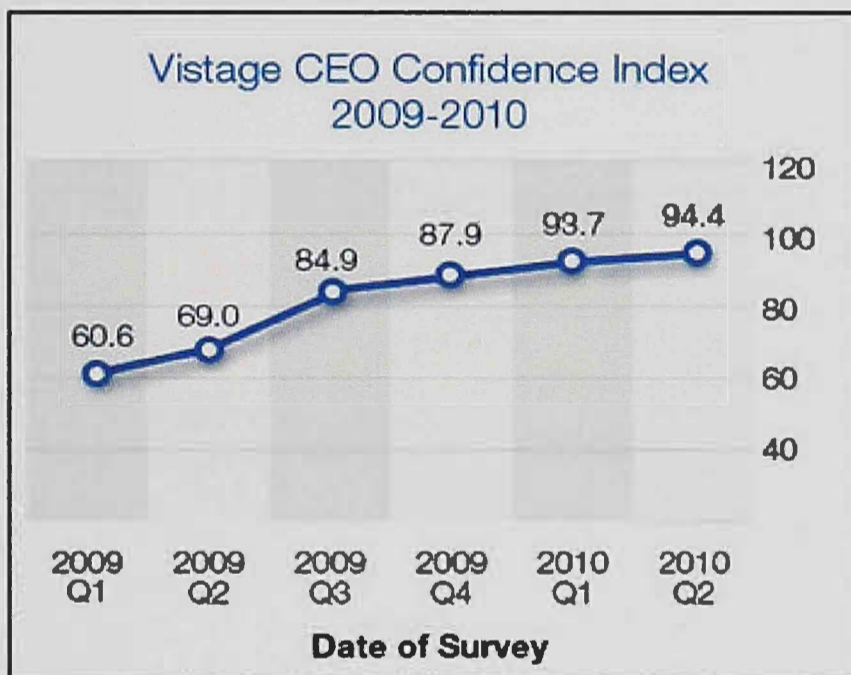
CEO CONFIDENCE INDEX

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.



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.

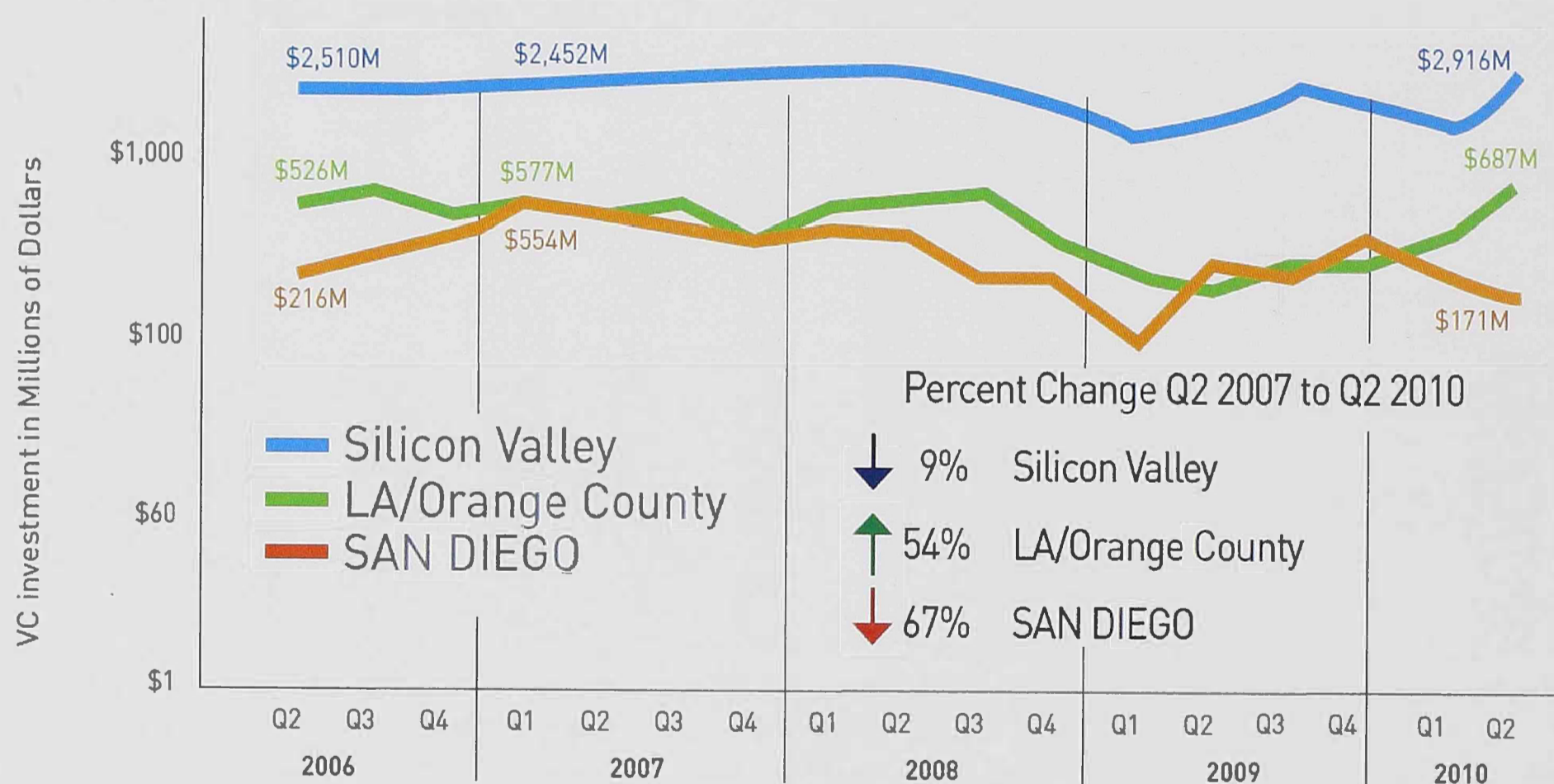
VENTURE CAPITAL INVESTMENT

SAN DIEGO VC FUNDING CONTINUES TO DROP IN Q2 2010

Venture capital investment in San Diego continues to be down almost 70% from pre-recession levels as measured by Q2 2007 results. Venture investment in the second quarter of 2010 was down 24% from the first quarter with 24 local companies receiving \$171 million, according to the most recent PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ quarterly report. Compared to the previous year, the amount of VC funding was down 34% from the \$257 million raised by 26 San Diego companies in the second quarter of 2009. In the second quarter of 2007, \$515 million was invested in 42 San Diego companies.

Since the onset of the recent recession, San Diego has experienced a larger relative decrease in VC investment compared to Silicon Valley and LA/Orange County. San Diego VC investment spiked in the first quarter of 2007 to over half a billion dollars following a year of steadily increasing investments – the highest quarter total since the third quarter 2003 – whereas just prior to the recession, VC investments in the Silicon Valley and LA/Orange County regions grew only slightly. Falling from the large upsurge in early 2007, VC investment in San Diego in the second quarter of 2010 was down 67% from the second quarter of 2007, while Silicon Valley's second quarter 2010 result was down only 9% and LA/Orange County was up 54% compared to three years ago.

VC Investment by Region
Pre-Recession to Second Quarter 2010



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

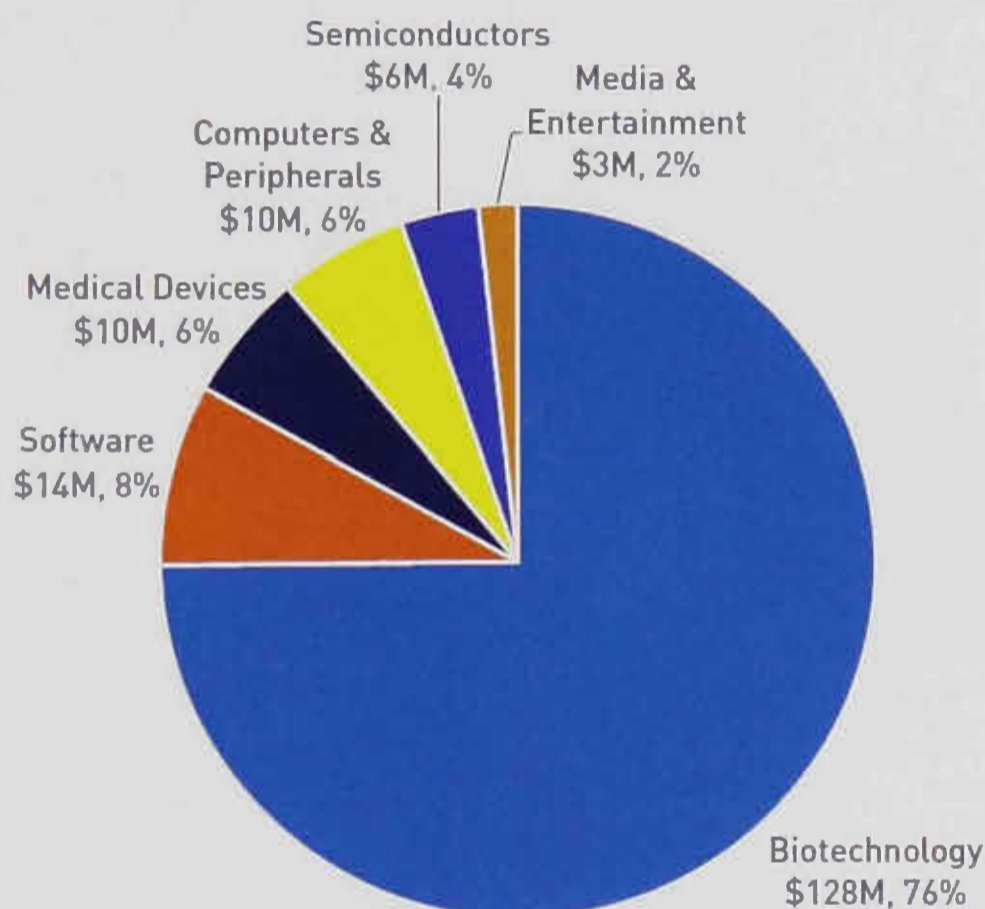
San Diego's regional ranking also declined from seventh to tenth in the nation in the second quarter of 2010. The region received three percent of total nationwide investments down from five percent in the previous quarter. Southern California (San Diego and LA/Orange Counties) moved up to rank second nationally with VC investments of \$857 million for the quarter, up 36% from \$632 million in the first quarter of 2010 and up nearly 90% from the \$452 million in the second quarter of 2009.

VENTURE CAPITAL INVESTMENT (CON'T)

In San Diego, the life sciences sector (biotechnology and medical devices) again received the majority of the financing during the second quarter of 2010 with 17 companies receiving \$138 million or 81% of the total funds invested, down slightly from the \$145 million, or 64%, of the funds invested in the first quarter of 2010. Compared to the second quarter of 2009, VC investment in life sciences companies was down 15% when \$159 million was invested in 16 companies. "San Diego's life sciences industry continues to receive significant attention from investors with 17 of the 24 deals in the life sciences sector," commented Bill Molloie, partner at PricewaterhouseCoopers and leader of the San Diego Life Science and Pharma Practice.

The software sector received the second largest VC investment with one company (Zeebo, Inc.) receiving \$13.5 million. This was followed by the computers and peripherals sector at \$10 million with one company (Image Communications, Inc.) funded. The semiconductors sector was fourth largest in the second quarter of 2010 with one company (Pervasive, Inc.) receiving \$6 million.

**San Diego VC Investments by Industry
Q2 2010**



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

THE TOP 10 VC INVESTMENTS IN SAN DIEGO COMPANIES – Q2 2010

The three largest investments the second quarter of 2010 accounted for nearly 50% of the total VC funding in San Diego, with the top 10 deals accounting for 87%.

Sonexa Therapeutics, Inc	\$37.2 million	Otonomy, Inc.	\$10.6 million
Astute Medical, Inc	\$26.6 million	Imagine Communications, Inc.	\$10.0 million
Nereus Pharmaceuticals, Inc.	\$20.0 million	Pervasive, Inc.	\$6.0 million
Zeebo, Inc.	\$13.5 million	Evoke Pharma, Inc.	\$6.0 million
Aragon Pharmaceuticals, Inc.	\$12.0 million	AltheaDx, Inc.	\$6.0 million

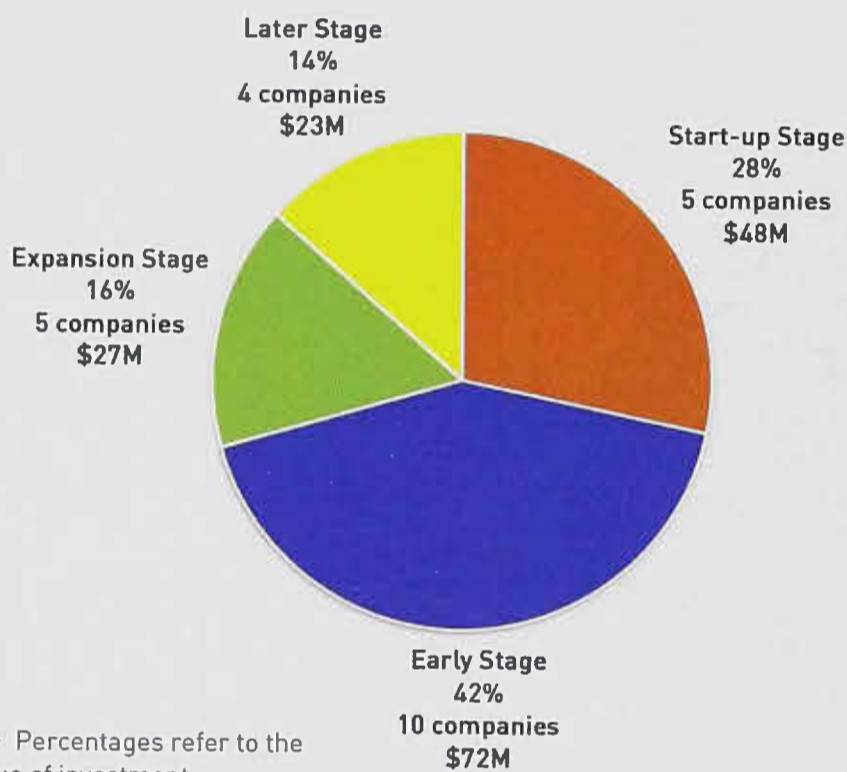
VENTURE CAPITAL INVESTMENT (CON'T)

VC FUNDING BY STAGE OF COMPANY DEVELOPMENT – Q2 2010

SAN DIEGO'S EARLY STAGE COMPANIES ATTRACT MORE THAN 70% OF VC FUNDING

Of the total VC investment in San Diego in the second quarter, 71% or over \$121 million went to start-up/early stage companies – up from 42% in the previous quarter. "San Diego's first and second investment sequences in Q2 2010 represented 48% of the total dollars invested as to compared to 40% for all of 2009," said Molloie. In San Diego, start-up stage companies received 28% or \$48 million of the total funds invested, and early stage companies received 42% or almost \$72 million in the second quarter of 2010. Financing of later stage companies decreased to 14% of the total (\$24 million) compared to 38% in the first quarter of 2010. The number of deals in each stage was as follows: start-up stage (five companies), early stage (10 companies), expansion stage (five companies) and later stage (four companies).

**San Diego Q2 2010 VC Investments
By Stage of Development**
\$171 million -- 24 companies



Note: Percentages refer to the \$ value of investment

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.

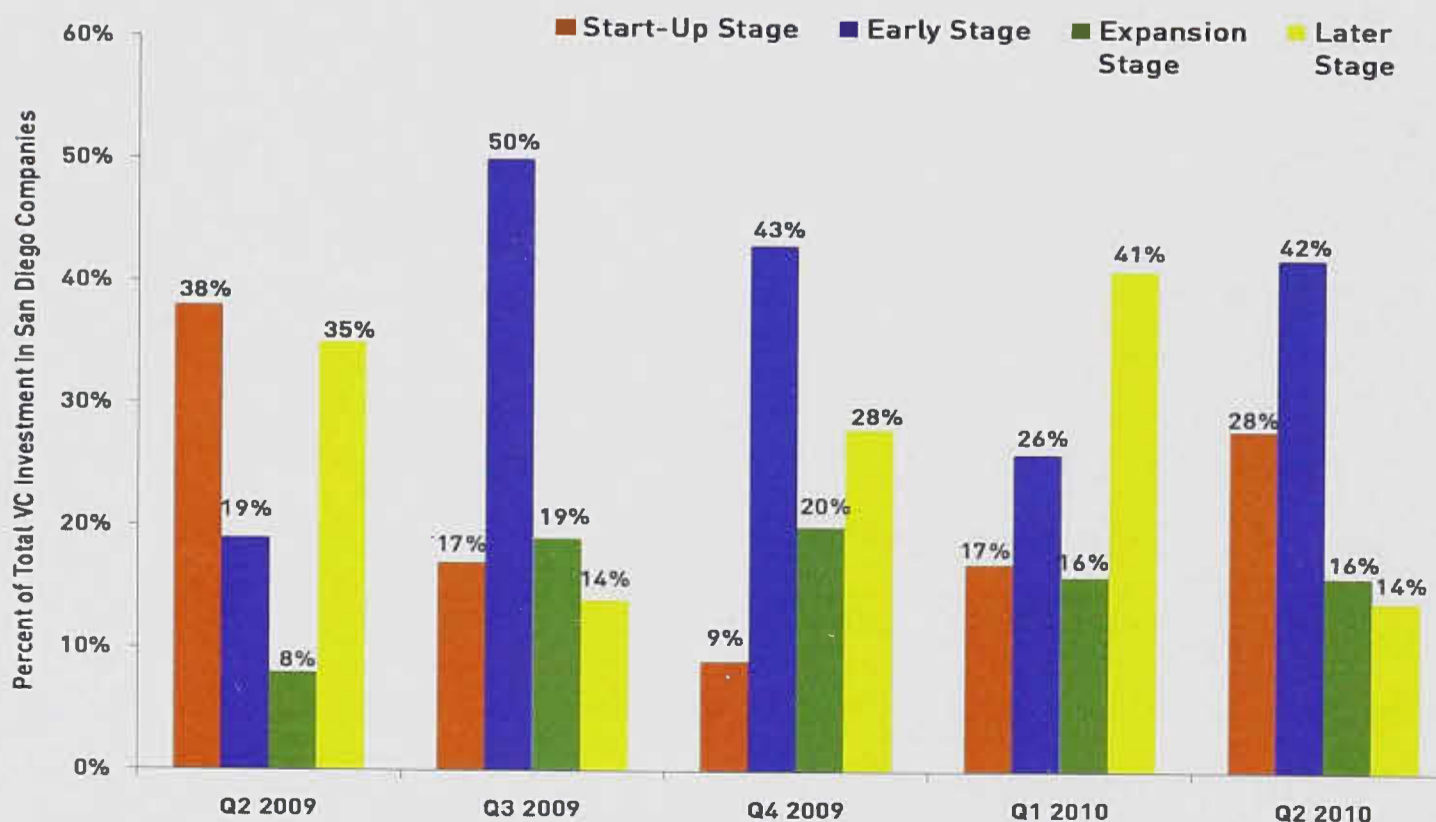
EXPANSION STAGE

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

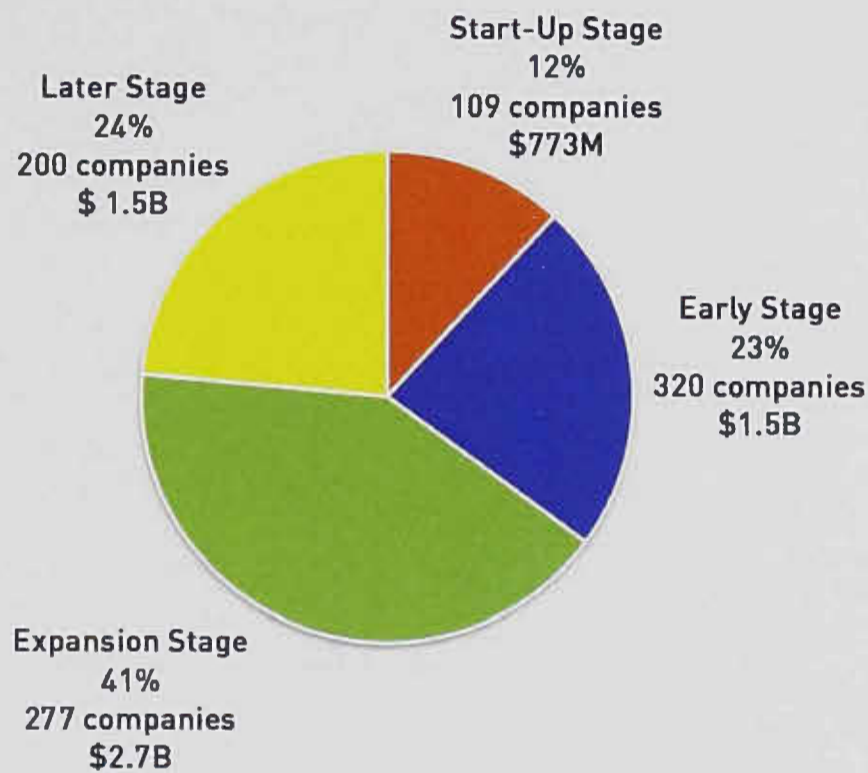


Source:
The MoneyTree™ Report by
PricewaterhouseCoopers and the
National Venture Capital
Association

VENTURE CAPITAL INVESTMENT (CON'T)

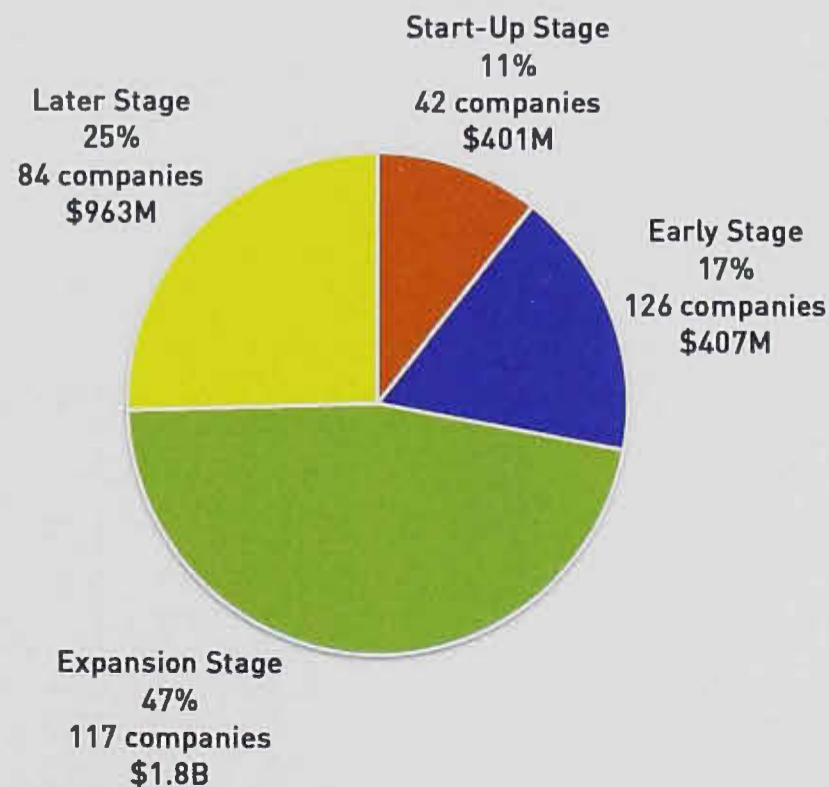
Nationally, a slightly greater percentage of VC investment went to start-up and early stage companies in the second quarter of 2010 than in the previous quarter. During the second quarter, 35% of investments went to start-up and early stage companies, compared to 30% in the prior quarter. However, the investments in expansion stage showed a slight increase while later stage investments decreased slightly as compared to the preceding quarter. During the second quarter of 2010, 41% of invested funds were made in expansion stage companies and 24% in later stage companies. California accounted for \$3.8 billion, or nearly 52%, of the total U.S. venture investment. The majority (65%) of the investments was in expansion and later stage companies.

Total Value of National Q2 2010 VC Investments
By Stage of Development
\$6.5 billion
906 companies



Note: Percentages refer to the \$ value of investment

Total Value of California Q2 2010 VC Investments
By Stage of Development
\$3.8 billion
369 companies



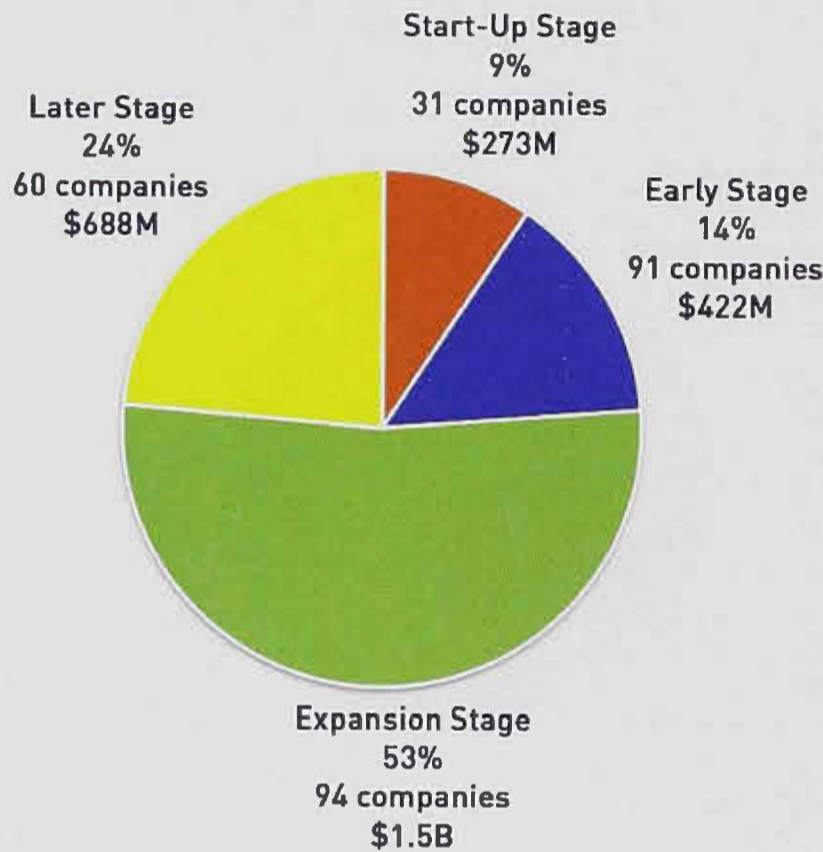
Source:
 The MoneyTree™ Report by
 PricewaterhouseCoopers and the
 National Venture Capital
 Association

VENTURE CAPITAL INVESTMENT (CON'T)

In Silicon Valley, 25% of the investment went to start-up and early stage companies totaling over \$695 million invested in 78 companies – up 46% from the first quarter of 2010. In Los Angeles/Orange County, 35%, or \$240 million, of the funding went to 29 start-up and early stage companies in the second quarter of 2010 – up 25% from the preceding quarter. Investment in later stage LA/Orange County deals dropped to 37% (\$251 million) in the second quarter, down from 61% (\$419 million) in the first quarter of 2010.

**Total Value of Silicon Valley Q2 2010
VC Investments by Stage of Development**

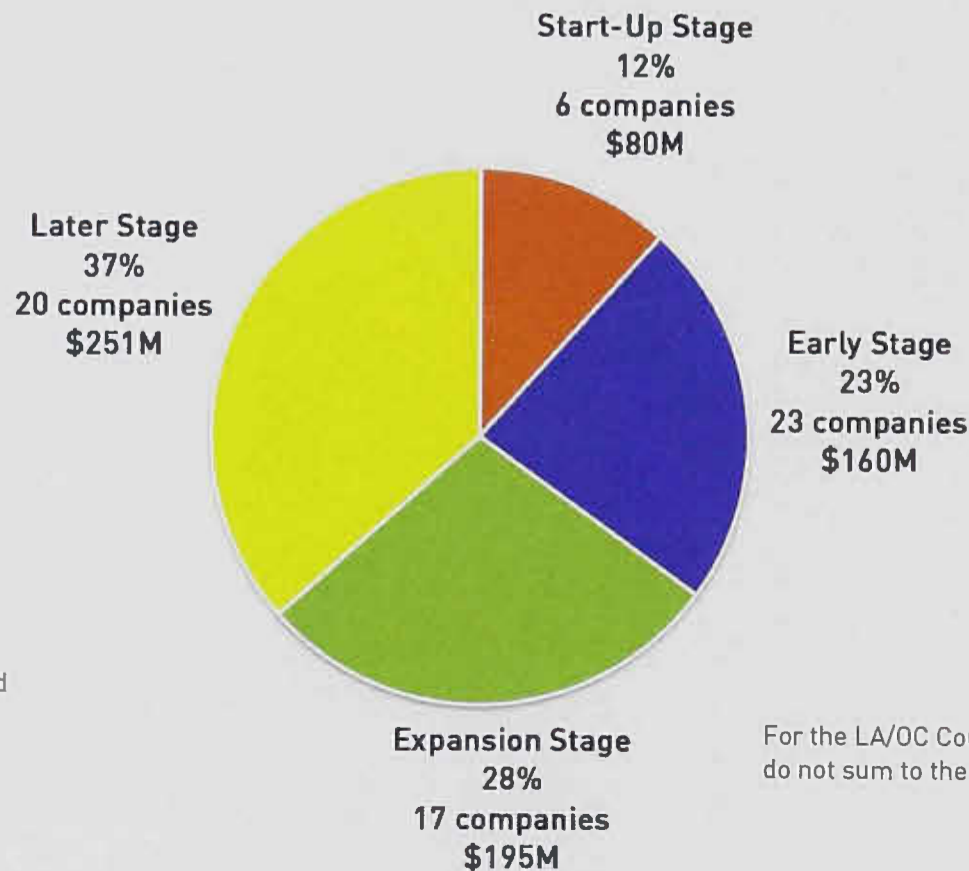
\$2.9 billion
276 companies



Note: Percentages refer to the \$ value of investment

**Total Value of Los Angeles/Orange County Q2 2010
VC Investments by Stage of Development**

\$687 million
67 companies



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

For the LA/OC County region: stage subtotals for \$ invested do not sum to the regional total due to rounding.

VENTURE CAPITAL INVESTMENT (CON'T)

REGIONAL VC INVESTMENT RANKINGS - SECOND QUARTER 2010

SAN DIEGO RANKED 10TH IN NATION; SOUTHERN CALIFORNIA RANKED 2ND

San Diego's second quarter VC investment regional ranking fell from seventh in the preceding quarter to 10th, and three percent of the total U.S. investments were made in San Diego, compared to five percent in the first quarter of 2010. Investment in the Southern California region (San Diego, LA and Orange Counties) in the first quarter was up 25% over the preceding quarter and \$858 million for the quarter, ranking second nationwide behind Silicon Valley (\$2.9 billion) and followed by New England (\$582 million). The top 10 regions accounted for 92% of the total U.S. VC investment for the quarter.

Rank	Region	VC Investment in \$ Millions	Number of Deals	Region VC Investment as % of U.S. Total
1	Silicon Valley	\$2,916	276	45%
2	LA/Orange County	\$687	67	11%
3	New England	\$582	95	9%
4	NY Metro	\$381	93	6%
5	Southeast	\$310	51	5%
6	Midwest	\$295	69	5%
7	Northwest	\$248	44	4%
8	DC/Metroplex	\$225	47	3%
9	Texas	\$189	39	3%
10	San Diego	\$171	24	3%
Top 10 Regions		\$6,004	805	92%
UNITED STATES		\$6,517	906	100%

Southern California Ranks 2nd in Nation in Q2 2010

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

Nationally, VC investments were up \$1.6 billion during the second quarter of 2010 compared to the first quarter of 2010. In the second quarter of 2010, \$6.5 billion was invested in 906 companies. This represents an increase of 25% from the previous quarter when \$4.8 billion was invested in 740 companies. The second quarter of 2010 was up 34% compared to the second quarter of 2009 when \$4.3 billion was invested in 705 companies.

Summary of National and Regional VC Investments

Region		2007	2008	2009	2008 Q2	2009 Q2	2010 Q1	2010 Q2
United States	Total (in Billions)	\$30.5	\$28.0	\$18.1	\$7.3	\$4.3	\$4.9	\$6.5
	# of Deals	4,027	3,985	2,893	1,066	705	740	1,646
	Average (in Millions)	\$7.6	\$7.0	\$6.2	\$6.9	\$6.1	\$6.6	\$4.0
California Total	Total (in Billions)	\$14.6	\$14.0	\$9.1	\$4.0	\$2.0	\$2.2	\$3.8
	# of Deals	1,663	1,626	1,185	434	283	299	369
	Average (in Millions)	\$8.8	\$8.6	\$7.7	\$9.2	\$7.2	\$7.4	\$10.2
Northern CA	Total (in Billions)	\$11.0	\$10.8	\$7.2	\$5.0	\$1.583	\$1.6	\$2.9
	# of Deals	1,273	1,251	871	327	214	219	278
	Average (in Millions)	\$8.6	\$8.6	\$8.3	\$15.4	\$7.4	\$7.3	\$10.5
Southern CA	Total (in Billions)	\$3.6	\$3.2	\$1.9	\$0.9	\$0.5	\$0.6	\$0.9
	# of Deals	390	375	266	107	69	80	91
	Average (in Millions)	\$9.3	\$8.5	\$7.0	\$8.9	\$6.6	\$7.9	\$9.4
San Diego	Total (in Billions)	\$1.9	\$1.2	\$0.9	\$0.36	\$0.26	\$0.23	\$0.17
	# of Deals	167	132	107	39	26	31	24
	Average (in Millions)	\$11.6	\$9.0	\$8.4	\$9.3	\$9.9	\$7.3	\$7.1

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.

MERGERS AND ACQUISITIONS AND OTHER INVESTMENT ACTIVITY

NUMBER AND VALUE OF Q2 2010 M&A DEALS DOUBLE VERSUS Q2 2009

In San Diego, 40 deals were closed in the second quarter of 2010 – nearly double the 24 deals closed in the second quarter of 2009. San Diego M&A deals totaled over \$300M in the second quarter – more than double the amount reported in the second quarter of 2009, but down 62% from the first quarter of 2010. The second quarter of 2010 saw the number of M&A deals jump 65% across California compared to the previous quarter. The value of reported deals closed statewide in the second quarter of 2010 was \$11.3 billion – down 41% compared to the first quarter of 2010, but nearly four times that of Q2 2009.

Regional M&A Deals by Quarter

Region		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Totals	2010 Q1	2010 Q2
Northern CA	Total Reported Value (in Millions)	\$4,949	\$1,866	\$2,520	\$17,134	\$26,469	\$17,069	\$8,456
	# of Closed Deals	91	89	155	136	471	195	304
Southern CA	Total Reported Value (in Millions)	\$6,195	\$1,169	\$1,827	\$3,181	\$12,372	\$19,127	\$2,828
	# of Closed Deals	103	74	134	131	442	153	269
San Diego	Total Reported Value (in Millions)	\$2,703	\$139	\$99	\$1,250	\$4,191	\$845	\$317
	# of Closed Deals	42	24	32	29	127	46	40

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

PRIVATE PLACEMENT DEALS IN SAN DIEGO COMPANIES TRIPLED IN Q2 2010

San Diego PIPE deals more than tripled in the second quarter of 2010 with 10 San Diego companies closing deals totaling over \$100 million through private placement investments. The total amount of proceeds raised was down 13% from the \$113 million raised by three companies in the first quarter of 2010. Three other San Diego companies made definitive agreements for an additional total of \$74 million. San Diego represented 50% of all PIPE deals closed in southern California in the second quarter. Southern California (including San Diego) companies issued 40% of the PIPE private placements statewide totaling \$687 million in the second quarter. In northern California, 11 companies closed private placement deals totaling over \$220 million, and 11 additional companies made definitive agreements to raise over \$407 million. Overall, second quarter PIPE investments in California were up seven percent over the previous quarter with 58 deals totaling almost \$1.5 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.

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

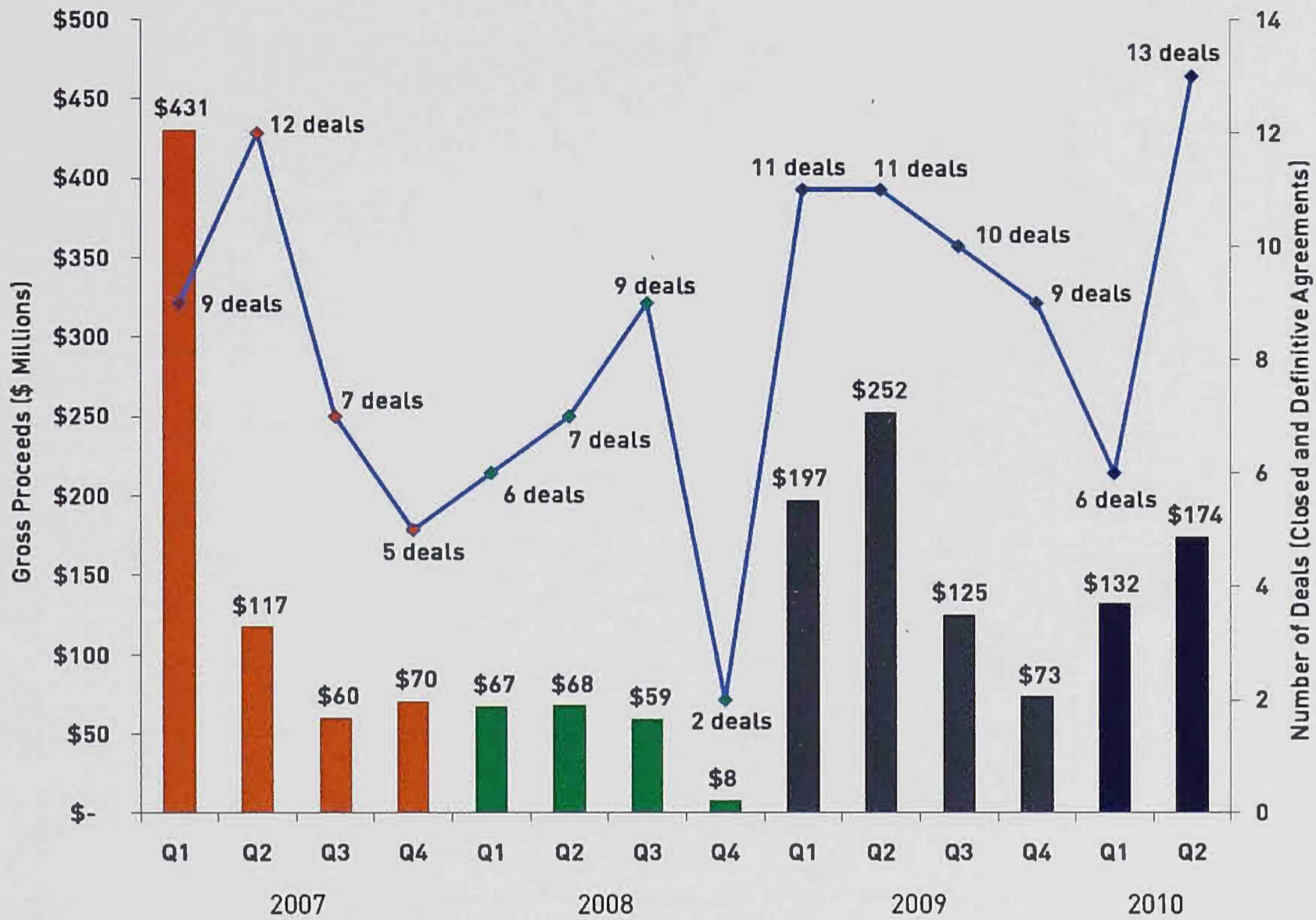
Region		Q4 2009	Q1 2010	Q2 2010
Northern CA	Total Reported Gross Proceeds (in \$ Millions)	\$352	\$522	\$627
	# of Closed Deals	17	24	22
Southern CA	Total Reported Value (in \$ Millions)	\$639	\$740	\$860
	# of Closed Deals	23	13	36
San Diego	Total Reported Value (in \$ Millions)	\$61	\$132	\$174
	# of Closed Deals	9	6	13
California	Total Reported Value (in \$ Millions)	\$1,052	\$1,393	\$1,487
	# of Closed Deals	49	43	58

*PIPE stands for Private Investment in Public Equities. 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.*

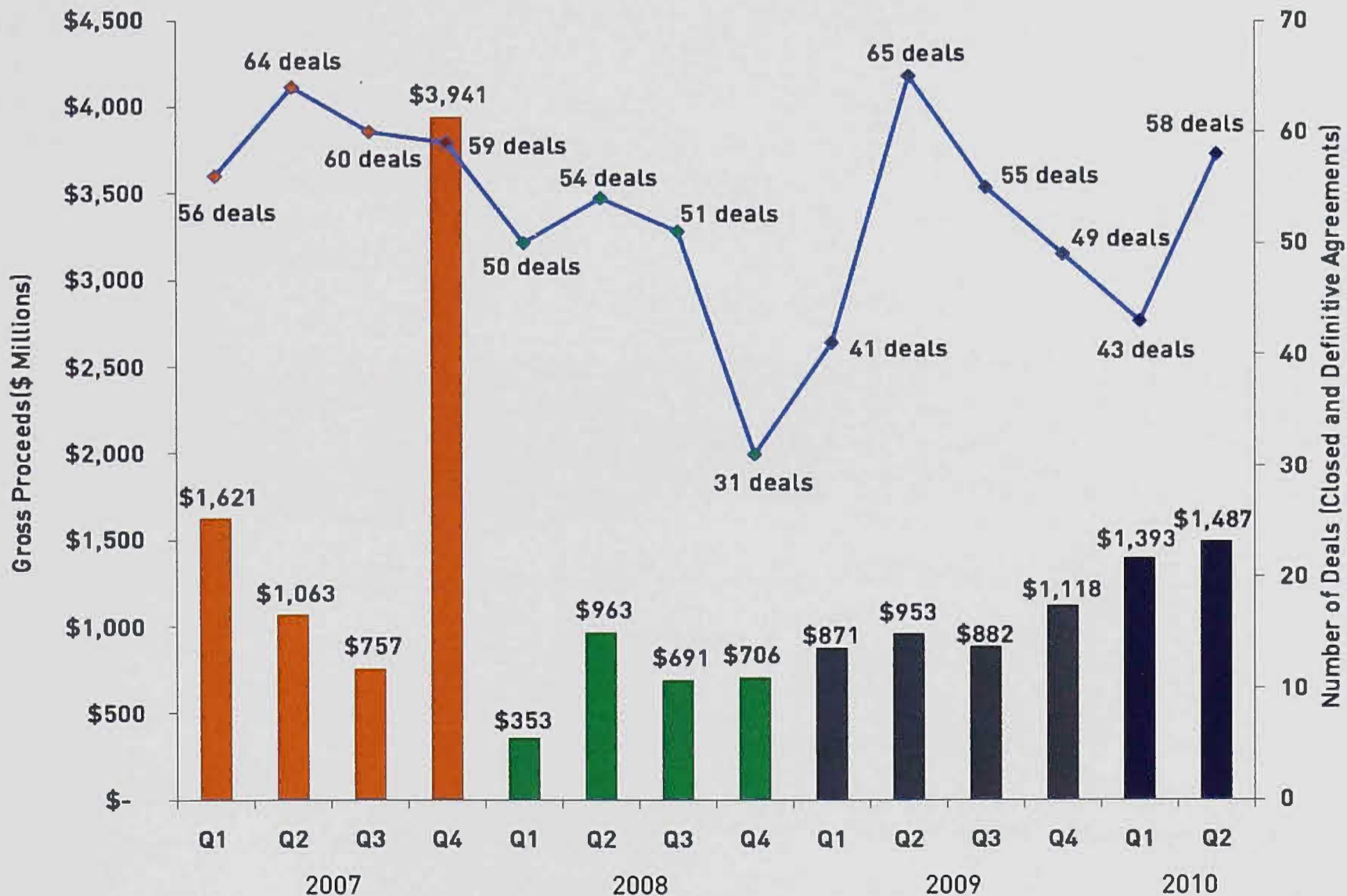
Source: Capital IQ; Roth Capital Partners; CONNECT

M&A AND OTHER INVESTMENT ACTIVITY (CON'T)

San Diego Private Placements – PIPE Transactions: Q1 2007 to Q2 2010



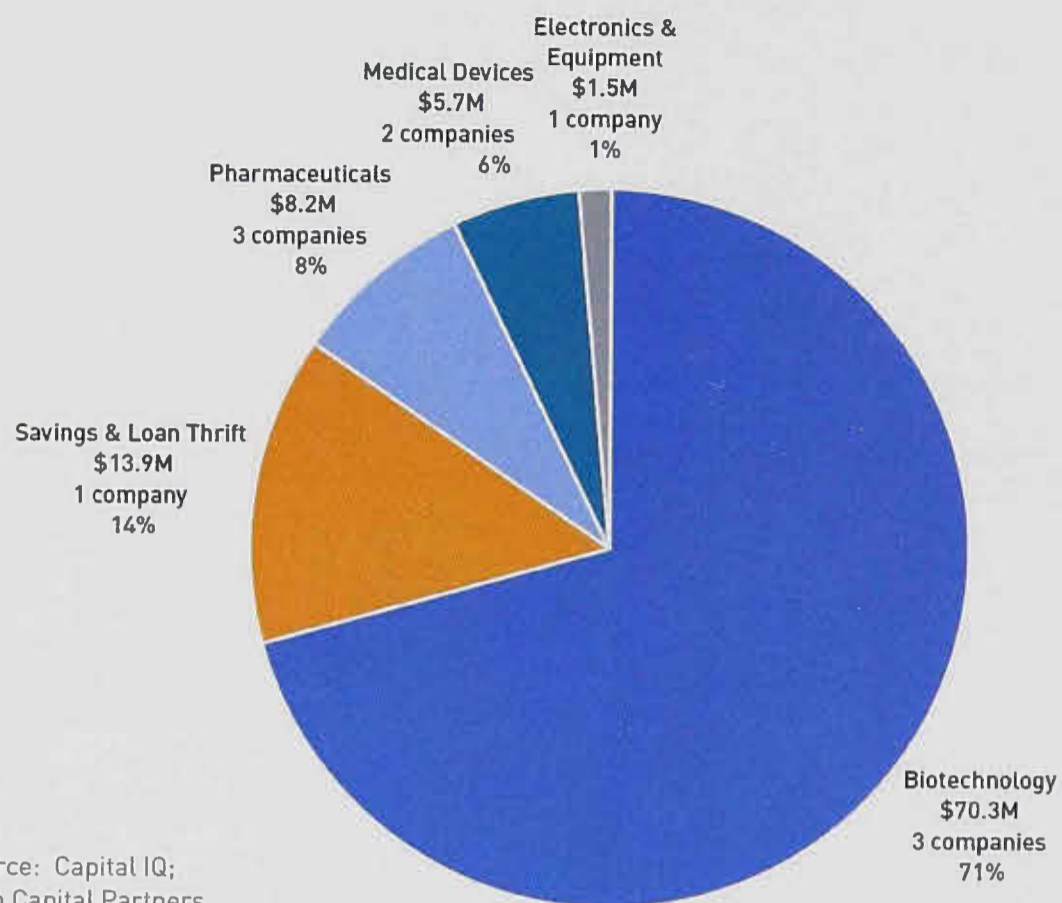
California Private Placements – PIPE Transactions: Q1 2007 – Q2 2010



Source: Capital IQ; Roth Capital Partners

M&A AND OTHER INVESTMENT ACTIVITY (CON'T)

San Diego Private Placements – PIPE Investments: Q2 2010



Source: Capital IQ;
Roth Capital Partners

In the second quarter of 2010, the majority of the PIPE investments in San Diego were made in the life science sector. Eight companies in the biotech, pharma and medical devices sectors raised a total of over \$84 million in PIPE placements. A savings and loan company raised almost \$14 million and an electronic component manufacturer raised \$1.5 million.

Three San Diego biotech companies announced definitive agreements for an additional \$74 million.

CALIFORNIA COMPANIES RAISE OVER \$5 BILLION IN PUBLIC EQUITY OFFERINGS IN Q2 2010

Ten California companies raised nearly \$898 million through their Initial Public Offerings (IPOs) in the second quarter of 2010. This was an increase of 10% over the amount raised by three California companies in the first quarter of 2010. Two San Diego companies raised almost \$238 million in the second quarter. Carlsbad-based molecular diagnostics company, GenMark Diagnostics Inc., raised almost \$28 million from its public offering while Excel Trust, a real estate investment trust (REIT) raised a reported \$210 million in its initial public offering, 22% less than it originally sought. San Diego IPOs represented over 26% of California IPO deal value.

Excluding San Diego, the Southern California region saw three companies raise \$272 million in initial public stock offerings. Five companies in Northern California raised \$388 million, or 43% of the total California IPO deal value in the second quarter of 2010.

California IPOs by Region – Q2 2010

Region	Reported Deal Value (in \$M)	Number of Deals
San Diego	\$237.6	2
Southern CA	\$272.0	3
Northern CA	\$387.9	5
Total - California	\$897.5	10

Source: Capital IQ;
Roth Capital Partners

M&A AND OTHER INVESTMENT ACTIVITY [CON'T]

California IPOs by Company- Q2 2010

Company	Reported Value (in \$M)	City	Region
GenMark Diagnostics, Inc. (NasdaqGM:GNMK)	\$27.6	Carlsbad	San Diego
Excel Trust, Inc. (NYSE:EXL)	\$210.0	San Diego	San Diego
Hudson Pacific Properties, Inc. (NYSE:HPP)	\$217.6	Los Angeles	Southern CA
ReachLocal, Inc. (NasdaqGS:RLOC)	\$54.2	Woodland Hills	Southern CA
Forex International Trading Corp.	\$0.2	Los Angeles	Southern CA
Tesla Motors, Inc. (NasdaqGS:TSLA)	\$226.1	San Carlos	Northern CA
TeleNav, Inc. (NasdaqGM:TNAV)	\$56.0	Sunnyvale	Northern CA
S&W Seed Company (NasdaqCM:SANW)	\$15.4	Five Points	Northern CA
Codexis, Inc. (NasdaqGM:CDXS)	\$78.0	Redwood City	Northern CA
New Pride Corporation (KOSE:A900100)	\$12.4	Oakland	Northern CA
Total - California	\$897.5		

Source: Capital IQ;
Roth Capital Partners

The underwritten follow-on offering market saw 21 California companies raising nearly \$4.3 billion in proceeds from the sale of additional share offerings to investors. This was an increase of almost 72% over the \$2.5 billion raised in the first quarter by 38 California companies. Four San Diego companies raised over \$360 million in follow-on equity capital in the second quarter of 2010.

California Underwritten Follow-On Equity Offerings Q2 2010

Region	Reported Deal Value (in \$M)	Number of Deals
San Diego	\$362	4
Southern CA	\$2,051	6
Northern CA	\$1,891	11
Total - California	\$4,304	21

Source: Capital IQ; Roth Capital Partners

San Diego Underwritten Follow-On Equity Offerings Q2 2010

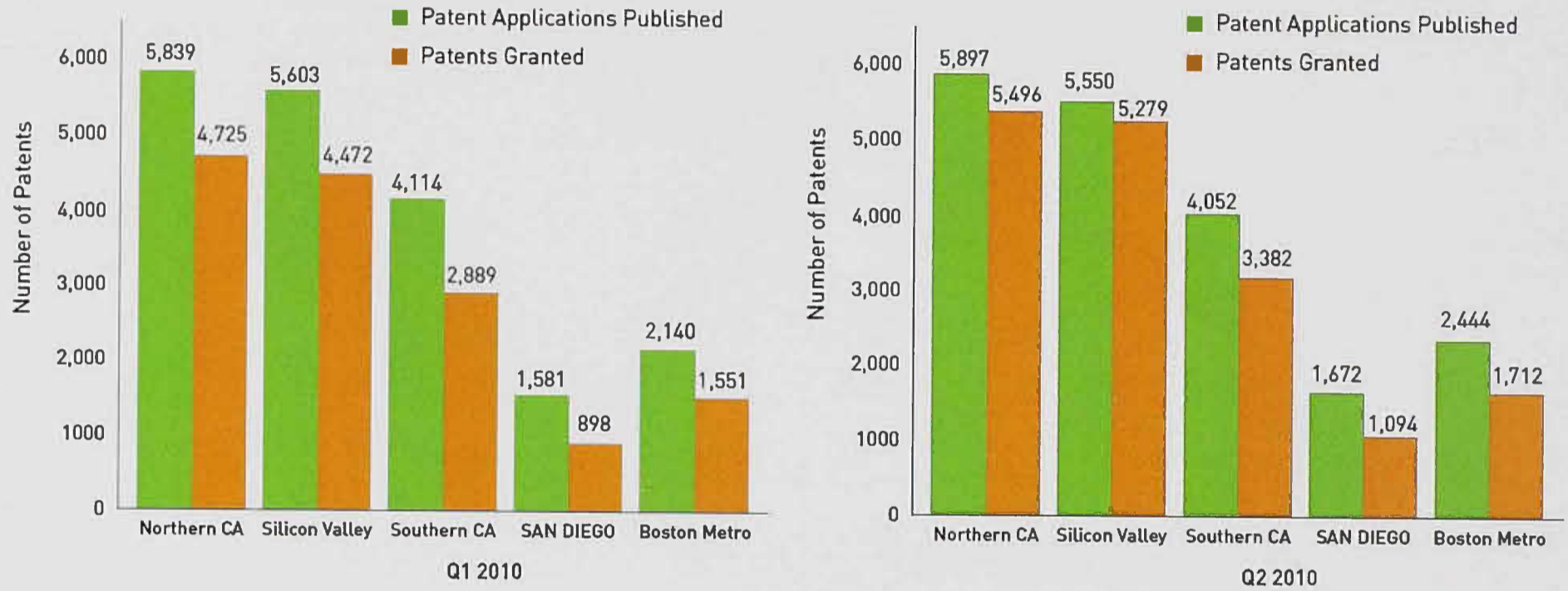
Company	Reported Deal Value (in \$M)
Alphatec Holdings, Inc. (NasdaqGM:ATEC)	\$80.0
BioMed Realty Trust Inc. (NYSE:BMR)	\$198.4
Ardea Biosciences, Inc. (NasdaqGM:RDEA)	\$70.0
Bofl Holding Inc. (NasdaqGM:BOFI)	\$13.9
Total - San Diego	\$362.2

PATENT ACTIVITY IN SAN DIEGO, CALIFORNIA AND BOSTON METRO REGIONS – Q2 2010

SAN DIEGO PATENT ACTIVITY HITS TWO-YEAR HIGH IN Q2 2010

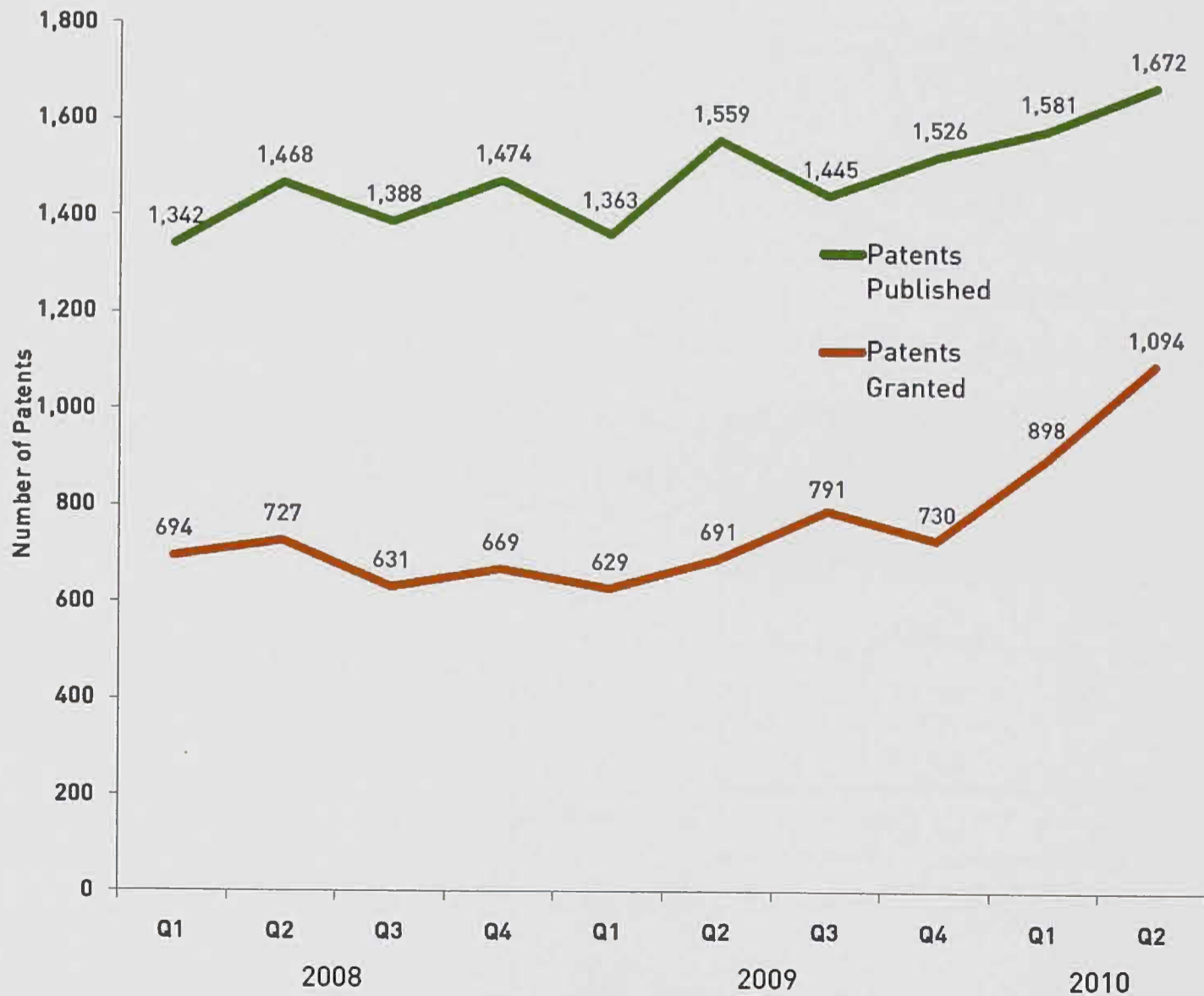
In San Diego, 1,094 patents were granted in the second quarter of 2010, up 22% compared to the previous quarter when 898 patents were granted. This was the most granted in the past two years. Patent applications published also hit a two-year high in the second quarter of 2010, up 6% with 1,672 patents published compared to 1,551 in the first 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 Applications Published and Granted by Region



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

San Diego Patents Activity Q1 2008 – Q2 2010



FEDERAL RESEARCH GRANTS: SAN DIEGO, CALIFORNIA AND BOSTON METRO REGIONS

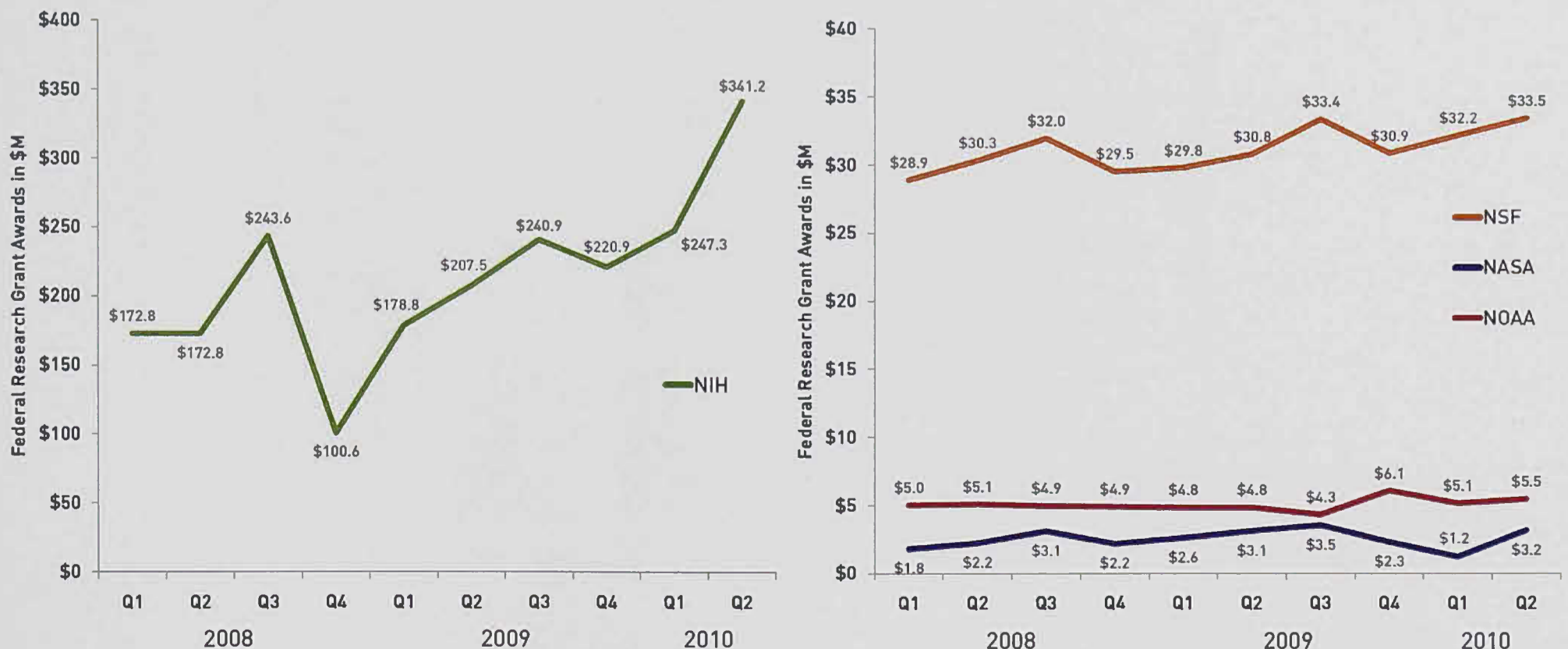
FEDERAL GRANT FUNDING HITS TWO-YEAR HIGH IN Q2 2010

Federal grant funding continued to far exceed VC investment in San Diego in the second quarter by more than 120%. Federal grant funding awarded in San Diego from the National Institutes of Health (NIH), the National Science Foundation (NSF), National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA) jumped 35% to \$383 million in the second quarter of 2010 from \$286 million in the first quarter of 2010. NIH funding accounted for the majority of the increase with over \$340 million, the largest quarterly award total in over two years. NSF funding to San Diego in the second quarter remained consistent with the previous quarter with \$33.5 million. Research grants from the NASA and NOAA to San Diego organizations were up 28% with a combined total of \$8.5 million in the second quarter of 2010.

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



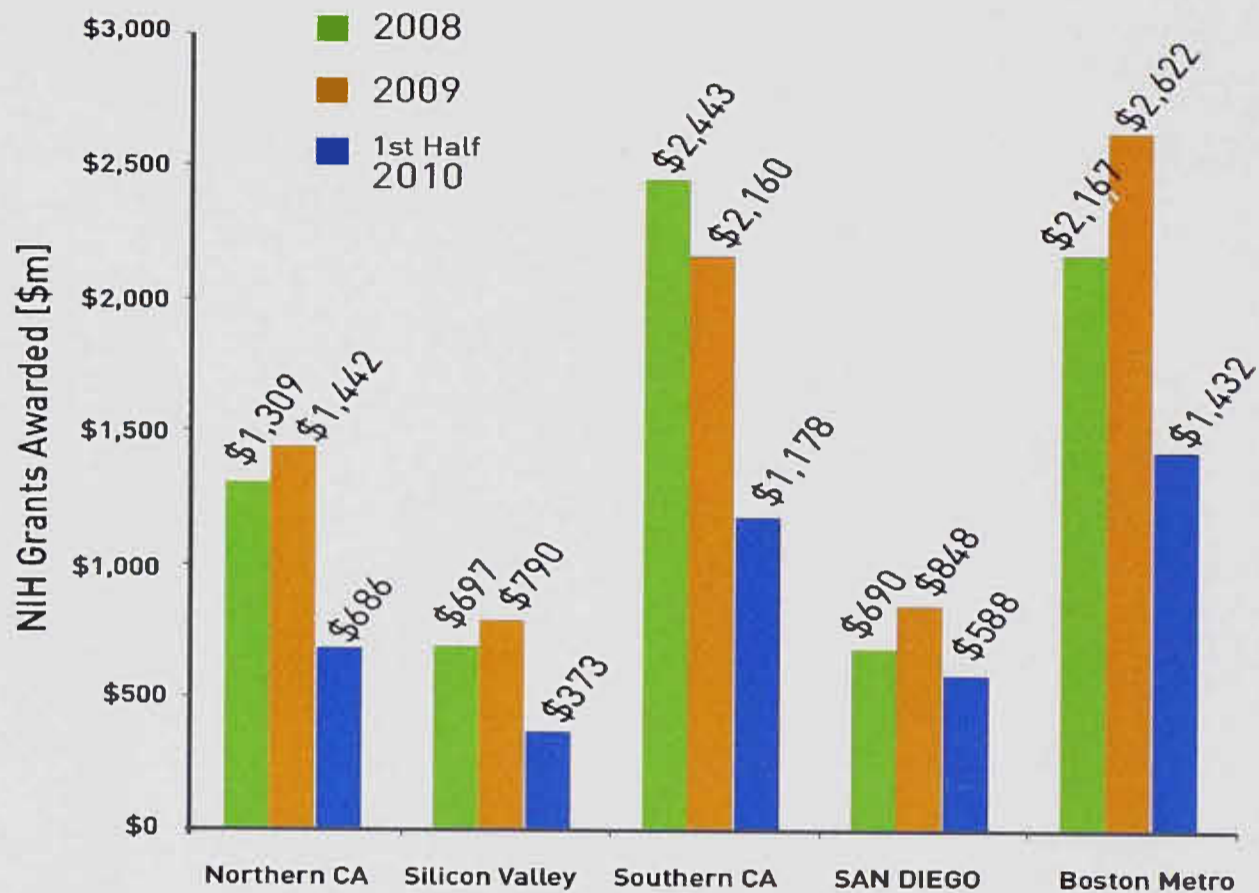
Federal Research Grants Received in San Diego – NIH, NSF, NASA and NOAA
Q1 2008 – Q2 2010



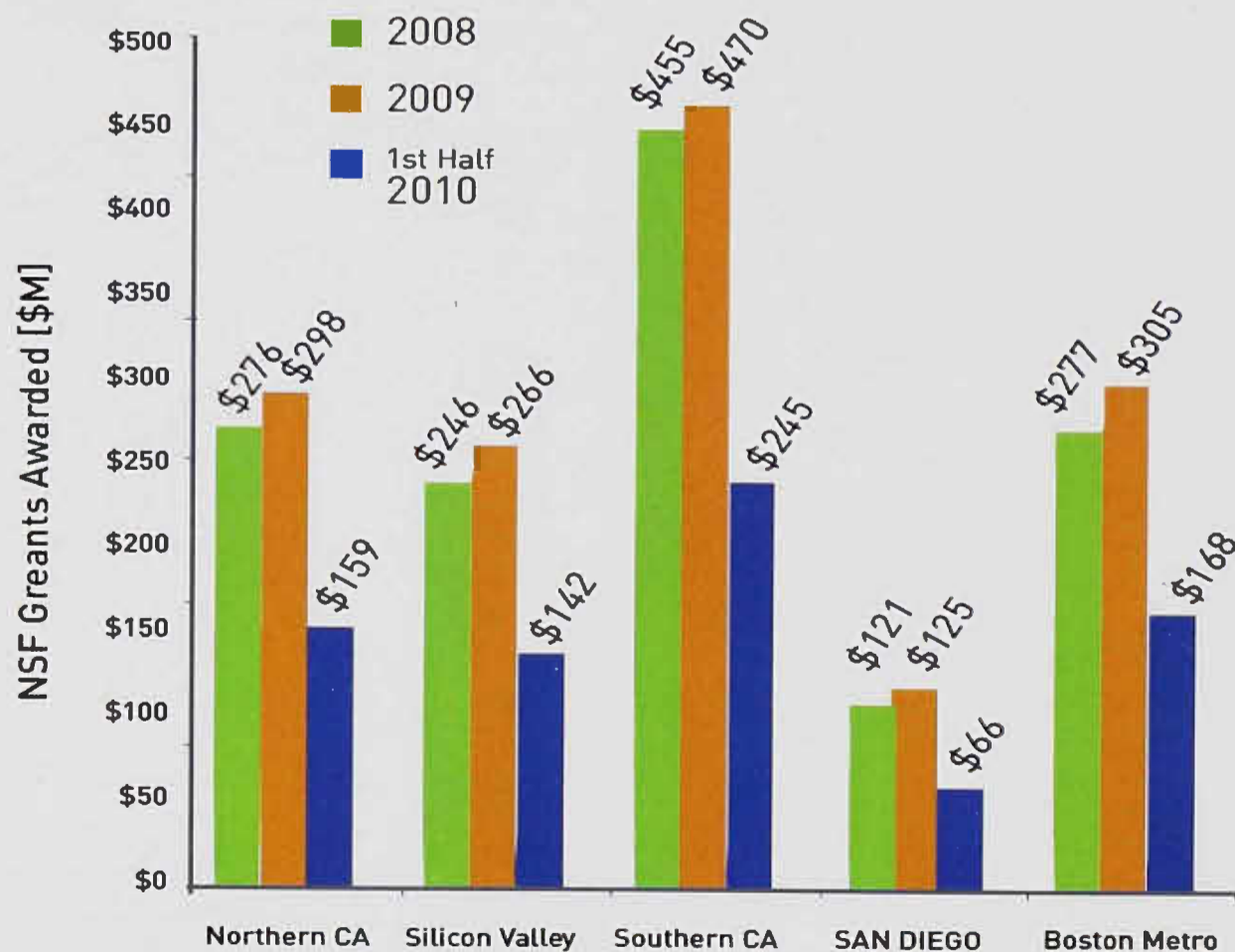
FEDERAL RESEARCH GRANTS: SAN DIEGO, CALIFORNIA AND BOSTON METRO REGIONS (CON'T)

Southern California received almost \$1.2 billion in NIH funding and \$245 million in NSF funding in the first half of 2010. San Diego represented 46% of the combined NIH and NSF award amount. Northern California received \$686 million in NIH funding and \$159 million from the NSF of which 61% went to Silicon Valley. The Boston metro region received \$1.6 billion in the first half of 2010 from NIH and NSF grant funding.

NIH Funding Received - San Diego and Selected Regions



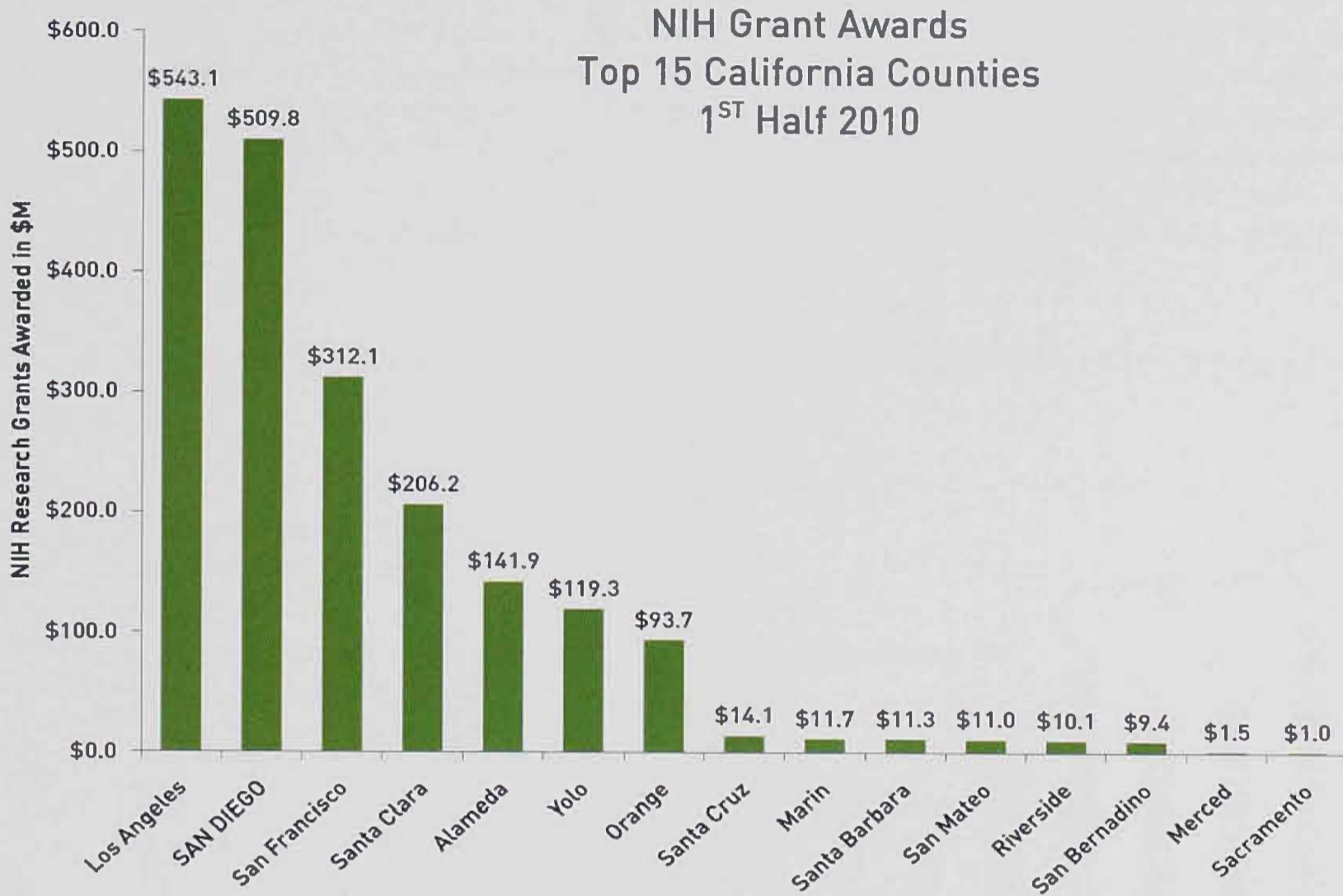
NSF Funding Received - San Diego and Selected Regions



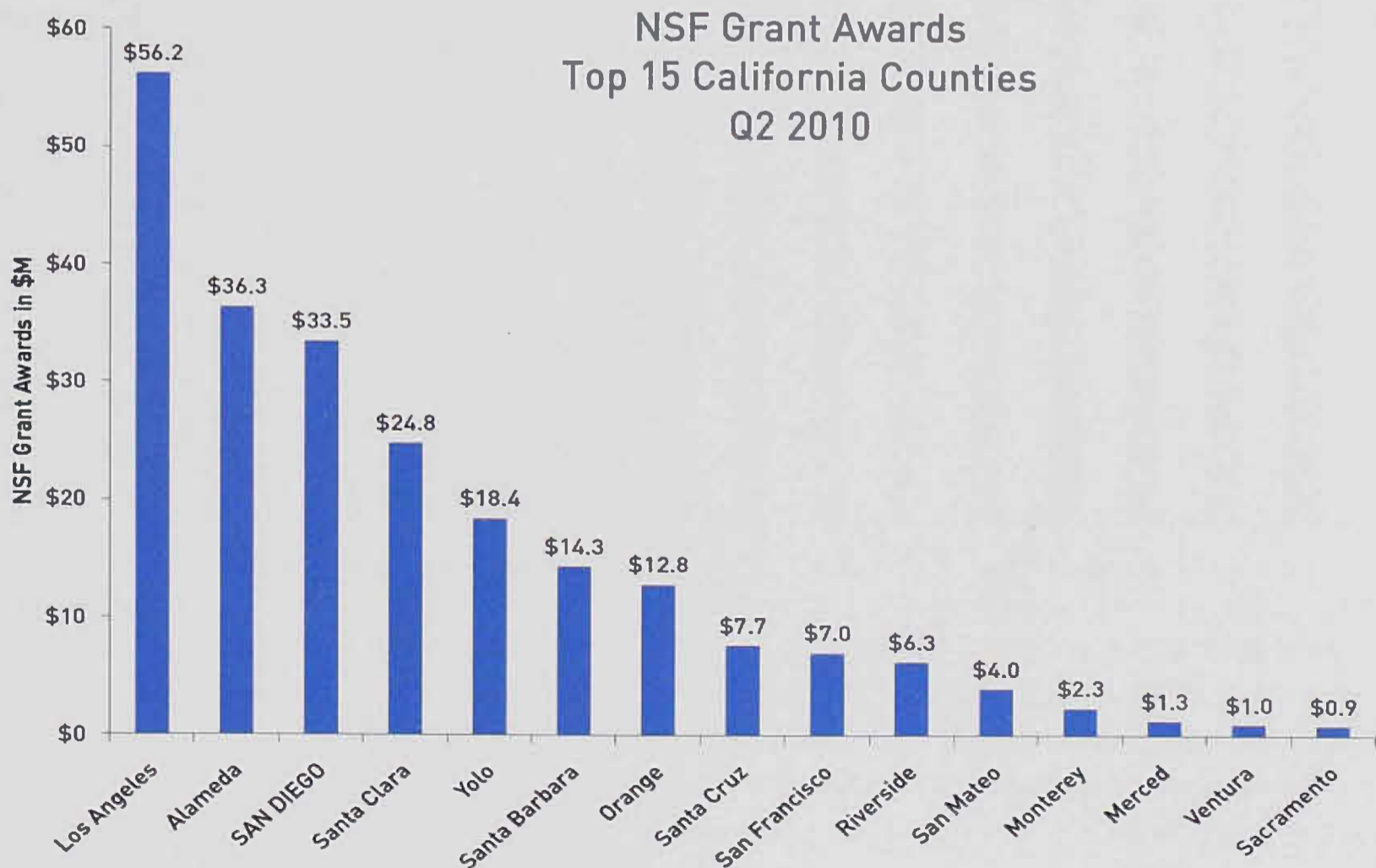
Source: NIH, NSF; UC San Diego Extension

FEDERAL RESEARCH GRANTS: SAN DIEGO, CALIFORNIA AND BOSTON METRO REGIONS (CON'T)

San Diego County represented more than a quarter of the NIH grant funding awarded in California in the first half of 2010. Los Angeles and San Diego together represented 56% of the state's NIH funding. San Francisco County received \$312 million and Santa Clara County followed with \$206 million. Los Angeles also led in NSF funding in the second quarter of 2010 with over \$56 million followed by Alameda County with \$36 million and San Diego with more than \$33 million.



Source: NIH; NSF; UC San Diego Extension



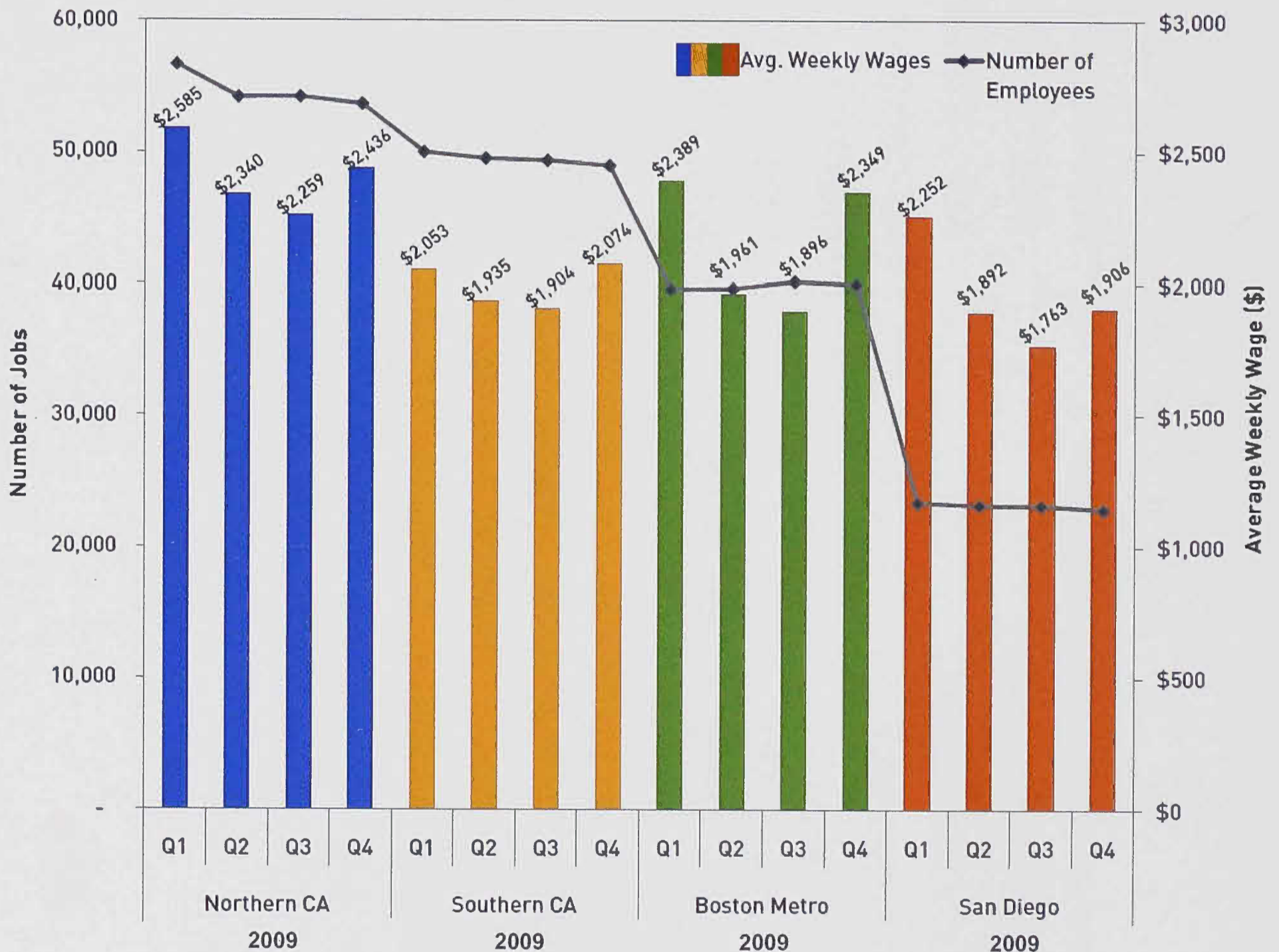
Source: NIH; NSF; UC San Diego Extension

PRIVATE RESEARCH ORGANIZATION EMPLOYMENT AND WAGES

SAN DIEGO PRIVATE RESEARCH ORGANIZATION WAGES RISE BUT STILL REMAIN SIGNIFICANTLY LOWER THAN IN NORTHERN CALIFORNIA

Average weekly wages paid by private research organizations rose in the fourth quarter of 2009 across California and most notably in the Boston metro region. In Boston, private research organization wages were up significantly in the fourth quarter – almost 24%, compared the previous quarter according to the most recently available data from the U.S. Bureau of Labor Statistics. San Diego’s average wage increased eight percent over the same period, but was down 15% from the first quarter of 2009 whereas wages in the other regions bounced back almost to their respective first quarter levels. Average weekly wages in San Diego continued to be 22% lower than the average in northern California. Northern California had over 56,000 employees in the fourth quarter compared to nearly 49,000 in the southern California region. San Diego private research institutes employed approximately 23,000 employees in the fourth quarter – down slightly from nearly 23,200 in the third quarter of 2009.

Regional Private Research Organization Average Employment & Wages
Q1 2009 – Q4 2009



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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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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