Online

Real Estate News
Home sales, leasing data
San Diego's Source
sddt.com/realestate

The Daily Transcript

Real Estate

Publicly traded home-builders report strong contract increases for March and the first quarter.

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San Diego Source: www.sddt.com

San Diego's Business Daily

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Inside

26 Pages

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Living wage issue goes before City Council

By KEVIN CHRISTENSEN
The Daily Transcript

SAN DIEGO — The City Council is set to hear a debate Tuesday over whether to increase the minimum wage and require health care for employees contracted to do work for the city.

The matter has been debated through dueling press conferences for the past week between supporters of the plan and opponents.

The Center for Policy Initiatives, a local labor think tank, proposed bumping the minimum wages for employees of companies contracted to do work for the city up to $10 an hour and provide $2 per hour for health care that would be phased in over two years.

The living wage would only affect those businesses that are contracted by the city to do work such as landscaping, nonprofits that receive city subsidies and other businesses that receive city subsidies.

Construction companies would not be impacted.

In a report issued by City Manager Lamont Ewell on April 7, the living wage could cost the city an estimated $3.6 million in fiscal year 2006 and add at least $3 million annually through fiscal year 2015.

Paul Karr, spokesman for the Center of Policy Initiatives, said that these numbers are not accurate and that a report would be issued by the organization before the council meeting.

Councilwoman Toni Atkins said at a Monday press conference, "We can't afford not to do this. These people play by the rules and they deserve to be part of the American dream."

The San Diego Regional Chamber of Commerce held a "media roundtable" last week to discuss impacts that implementing the living wage might have.

Opponents of the living wage argue against the implementation for two main reasons.

First, the increase of the wages will hit their bottom line and would result in layoffs of employees and could also put some out of business.

Ernie Hahn II, a spokesman for the San Diego Sports Arena, said that wage increases would lead to higher costs of operations, which would put them out of competition with other venues such as the Coors Amphitheater in Chula Vista, or worse.

"We'll be out of business," Hahn said.

Jerry Seigel, president of Peartree Catering, which has contracts with the city, also said the ordinance could lead to layoffs.

Seigel, who employs up to 30 full-time workers, said the ordinance could increase his cost of service by between 20 percent to 25 percent.

Second, the living wage would come across as an unfunded

See **Living wage** on 8A

CONNECT to hold financial forum

Event showcases local high-tech, life sciences companies

By MICHAEL BUCHANAN
The Daily Transcript

SAN DIEGO — Venture capitalists looking to invest in the next great innovation can hear pitches from a couple dozen of San Diego's most promising upstart companies on Thursday.

The local technology trade group UCSD CONNECT is hosting a financial forum to showcase new companies in the high-technology and life sciences industries and link them with venture funding.

The event — now in its 21st year — runs from 7 a.m. to 6 p.m., Thursday, at the Sheraton San Diego Hotel and Marina's West Tower, located at 1380 Harbor Island Drive.

While the event is geared toward helping upstart companies, CONNECT is also hoping the presentations will attract more venture capitalists to set up shop in San Diego, said Duane Roth, executive director of CONNECT.

"It's important that the most experienced and knowledgeable venture capitalists reside here if we're going to have more San Diego-led deals," Roth said. "I think this event shows the kinds of ideas that are coming out of our community so people become more aware of the opportunities here."

Photo: Diana Cassanova

Edye Bauer talks about the venture capital market as it relates to the high-tech industry during a roundtable discussion. A transcript of the discussion starts on Page 4A.

The morning kicks off with an hour-long networking session followed by a breakfast featuring speeches by Larry Smarr, who will talk about what's on the horizon in telecommunications. Smarr is director of the California Institute for Telecommunications and Information Technology, or Cal-(IT)2.

Harry Gruber, a professor at UCSD Jacobs School of

See **Financial forum** on 4A

Ruling: Affordable housing projects exempt from paying prevailing wages

By DOUG SHERWIN
The Daily Transcript

SAN DIEGO — Affordable housing just got a little more affordable thanks to a recent decision by the state's Department of Industrial Relations (DIR).

The California agency ruled that low-income building projects receiving tax credits or tax-exempt bonds aren't considered public works projects and therefore don't have to pay prevailing wages.

Prevailing wages are set by the DIR based on labor surveys to determine what the going rate is in each community. They tend to be the higher rates earned by union workers.

"The difference between paying prevailing and nonprevailing wage is substantial," said Gary Downs, a partner with law firm **Pillsbury Winthrop Shaw Pittman LLP**. "It can add 20 percent to the overall budget."

The owner of a low-income housing development in San Marcos felt it was unfairly being forced to pay prevailing wages to the projects workers.

State law requires that prevailing wages be paid for public works projects, which are defined as work done under contract and paid for in whole or in part out of public funds.

An amendment to the labor code in 2001 expanded the definition of what constitutes public funds.

But, Downs and Pillsbury Winthrop associate Paul Schrecongost argued, the Rancho Santa Fe Village Apartments still didn't qualify as a "public works" project because it only received tax-exempt bonds and federal tax credits.

"It didn't count even in the expanded definition of public funds," Downs said.

The Director of Industrial Relations, John Rea, agreed.

The State Building and Construction Trades Council of California, AFL-CIO has appealed the decision, asking the DIR to reverse its decision. If it doesn't, the SBCTC will have to take its case to superior court.

"The council felt the director

See **Affordable housing** on 8A

Stocks little changed as Ford Motor cuts profit outlook

By GEORGE CHAMBERLIN
Daily Transcript Financial Correspondent

SAN DIEGO — Stock prices moved slightly lower Monday as investors await earnings reports for the first quarter of 2005. Volatile oil prices also impacted trading.

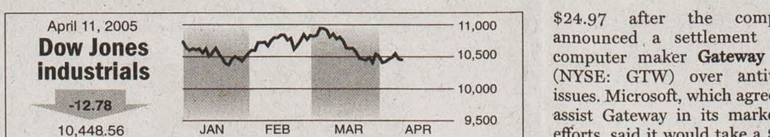
The Dow Jones industrial average fell 12.78 points to 10,448.56. The Nasdaq composite index dipped 7.23 points to 1,992.12.

The markets opened higher when oil prices fell to $52.10 a barrel. However, both markets reversed and crude finished up 39 cents to $53.71. OPEC ministers said they are willing to consider higher production levels if demand remains strong during the summer.

Investors also reacted to the warning from **Ford Motor Co.** (NYSE: F) that the automaker will not meet profit forecasts for 2005 and 2006. The shares fell 59 cents to $10.44.

Ford's announcement fed doubts about whether corporate America can keep profits up in the face of high energy costs.

"Right now, you see the economy growing and things are looking pretty good, despite all the worries," said Hans Olsen, managing director and chief investment officer at **Bingham Legg Advisers**. "But while the economy is climbing that wall of worry, stocks are running right into it. We'll need to see some pretty good earnings down the road to overcome that."



AP

Stocks fluctuated in and out of positive territory for much of the session, and volume was very light — signs of a market in a holding pattern as earnings reports start to come in.

"Most people are very risk averse. They don't want to make a mistake right now, so you see people reacting, not anticipating," said Paul McManus, chief investment strategist with **Independence Investments**. "People are just going to be sitting at their desk, reading a bunch of earnings reports, gauging who looks good through the summer and then they'll take positions."

Dow industrial **Microsoft Corp.** (Nasdaq: MSFT) added 3 cents to $24.97 after the company announced a settlement with computer maker **Gateway Inc.** (NYSE: GTW) over antitrust issues. Microsoft, which agreed to assist Gateway in its marketing efforts, said it would take a $550 million charge to cover the settlement. Gateway rose 8 cents to $4.16.

Verizon Communications Inc. (NYSE: VZ) fell 17 cents to $34.90 after the Dow component bought out **MCI Inc.**'s (Nasdaq: MCIP) largest single shareholder, taking a 13.75 percent stake in the company and clearing the way for its $6.7 billion takeover of MCI, which gained 17 cents to $26.01. **Qwest Communications International Inc.** (NYSE: Q), which had a $9.1 billion offer rejected by MCI, lost 11 cents to $3.82.

Aircraft maker **Boeing Co.** (NYSE: BA) said Korean Air would order up to 20 of its new 7E7 Dreamliner jets in a deal estimated at $2.4 billion. Boeing rose 80 cents to $59.40.

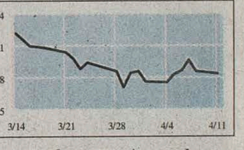
Electronics retailer **Circuit City Stores Inc.** (NYSE: CC) added 48

See **Market Report** on 8A

Local Scene

San Diego Stock Exchange

The San Diego Stock Exchange Index closed lower Monday at 118.47, down 0.16 percent from Friday. Declining issues topped advancers 72 to 49, and 45 issues were unchanged. **Southwest Community Bancorp Inc.** (OTCBB: SWCB) was the top dollar gainer, up $1.25 to $34.75. **ITLA Capital Corp.** (Nasdaq: ITLA) was the top dollar loser, down $1.14 to $45.87. The San Diego Stock Exchange Index is listed on Page 11A. **Source Code: 20050411tla**



Peregrine, Protiviti team up

San Diego-based **Peregrine Systems Inc.** (OTCBB: PRGN) and **Protiviti Inc.** announced Monday an alliance and introduced a new product that provides an innovative approach to resolving long-term compliance issues.

The alliance enables Peregrine and Protiviti to be the first companies to deliver a comprehensive asset management solution that will help CFOs and CIOs meet compliance requirements and complete IT audits in a more cost-effective and timely fashion.

The joint solution combines Peregrine's asset management software with Protiviti's expertise in regulatory compliance, audit and risk management consulting. **Source Code: 20050411tlb**

GM picks Pasha for shipments

General Motors Corp. (NYSE: GM) has chosen **The Pasha Group** to provide processing services as a part of the manufacturer's supply-chain logistics for its Cadillac CTS and SRX models being shipped to Shanghai, China.

"It's a huge contract for us and we're very excited. We've been doing business with General Motors for some time, but this contract means we'll be able to handle new shipments." said Jill Iviel, spokeswoman for The Pasha Group.

The vehicle shipments are part of General Motors' joint venture with **Shanghai Automotive Industry Corporation Group** that combines both imported products and product manufacturers in China as part of a technology transfer program.

Pasha processes vehicles for various manufacturers at its San Diego facility, totaling more than 250,000 vehicles annually. **Source Code: 20050411tlc**

Airport land use up for discussion

The draft San Diego County Airport Land Use Compatibility Plan is scheduled to be discussed before the Board of Supervisors on Tuesday. The affected airports range from Brown Field in the south to Ramona in the north to tiny Agua Caliente in the Anza-Borrego Desert. The plan deals with allowable residential and commercial densities, noise issues and height restrictions among many other factors. After review, the supervisors will refer the matter to the San Diego Regional Airport Authority for further input. **Source Code: 20050411tld**

Grants address border's air quality

The Border Ozone Reduction and Air Quality Improvement Program announced Monday it has awarded seven applied research grants for projects designed to reduce high levels of harmful ozone and other air pollutants, and to facilitate the creation of shared cross-border environmental standards in the Mexicali, Baja California and Imperial Valley, Calif., border regions.

See **Local Scene** on 8A

Editorial Roundtable on Technology

Biographies

Fernando Corona

Fernando Corona is the chief executive of V-Enable. Corona is responsible for growing V-Enable to become a dominant player in the multimodal wireless industry. Prior to joining V-Enable, Corona served as PacketVideo's senior vice president of marketing. At PacketVideo, Corona was responsible for building the company brand into an international symbol of cutting-edge wireless technology. Corona also held key executive positions at Tandberg Data Inc., Maxtor Corp., Allied Telesyn International, Western Digital and AST Research. He has more than 20 years of experience in the technology industry in both domestic and international sales, marketing and general management.

Dr. Paul Kedrosky

Dr. Paul Kedrosky is an award-winning academic, lecturer and columnist. He has published more than 300 articles in academic and nonacademic publications, including *Harvard Business Review, Forbes, The Wall Street Journal* and *Brookings Review.* Kedrosky founded the technology equity research practice at HSBC James Capel in Canada, and was involved in transactions totaling more than $1 billion. He was a director of the William J. von Liebig Center at the University of California, San Diego, where he coordinated the center's commercialization activities. In addition, Kedrosky is a venture partner with Ventures West, a venture capital firm with offices across Canada.

Dr. Robert Conn

Dr. Robert Conn is a managing director of Enterprise Partners Venture Capital, where he helped lead the $350 million Enterprise Partners VI Fund, providing seed and first-round investments in telecommunications, technology-based life science businesses and enterprise software sectors. Conn was previously dean of the Jacobs School of Engineering at the University of California, San Diego, and the Walter J. Zable endowed chair in engineering. He founded Plasma & Materials Technologies (now Trikon Technologies), a manufacturer of semiconductor chip etching and deposition equipment, where he served as chairman and senior technologist from 1986 until 1993, and remained on the board until 1994.

Duane Roth

Duane Roth has served as a director of Alliance Pharmaceuticals Corp. since 1985. He served as CEO of the company since 1985 and chairman since 1989. Prior to joining Alliance, Roth was president of Analytab Products Inc. (now called Wyeth), a manufacturer and marketer of medical diagnostics, pharmaceuticals and devices. For the previous 10 years, he was employed in various sales, marketing and general management capacities with Ortho Diagnostic Systems Inc., a Johnson & Johnson Co., which is a manufacturer of diagnostic and pharmaceutical products.

Photo: Diana Cassanova

Roundtable participants were (back row, left to right) Reo Carr, Fernando Corona, Robert Conn, (front row, left to right) Phil Baker, Edye Bauer and Duane Roth. Not pictured, Paul Kedrosky.

Edye Bauer

Edye Bauer is a local principal in the law firm Fish & Richardson. Bauer is a member of the corporate and securities group, focusing on a full range of corporate and securities matters, including corporate formation, corporate governance, mergers and acquisitions, venture financing, technology transfer and licensing, and general business counseling for both public and private companies. Bauer has experience with counseling public and private companies in biotechnology, pharmaceutical, medical device, software, telecommunications, health care and information technology industries. Previously, Bauer was an associate with Heller Ehrman White & McAuliffe LLP and Brobeck Phleger & Harrison LLP.

Phil Baker

Phil Baker is an expert in new product development and market development for large and small companies. He has held senior product development and marketing positions with Apple Computer Inc., Polaroid Holding Co., Seiko Corp., Proxxima, Atari Corp., Polycom Inc., and founded Think Outside Inc. He has pioneered the use of Far East resources to bring products to market quickly and cost-effectively. His products have won numerous awards including Best Computer Product of 2000 from *PC Magazine* and design awards from *Business Week, ID Magazine* and numerous other publications. Baker holds more than 30 patents and currently provides consulting in product development and market development.

Financial forum

Continued from Page 1A

Engineering, will also speak, as will Dr. Judith Swain, dean of translational research and founding director of the College of Integrated Life Sciences at UCSD. Swain will talk about potential new products in stem cell research.

Dr. Paul Kedrosky, distinguished fellow of the von Liebig Center at the UCSD Jacobs School of Engineering and a partner with **Ventures West**, a Canadian venture capital firm, is the keynote speaker scheduled for Thursday's luncheon.

Local companies have raised more than $6 billion through the financial forum since it began in 1984 and nearly 50 percent of companies who participated landed some funding.

This year, the forum will feature 25 companies that will present to more than 300 venture capital firms, investors and local business leaders.

The participants were screened from 80 applicants and were chosen based on whether they had received venture funding already, if they needed venture funding and how they were related to high-technology and life sciences.

Registration for the event is $375 for CONNECT members, $475 for nonmembers and $75 for the reception only. For more information, visit www.connect.org or call (858) 964-1301.

The outlook of today's venture capital market has been a hot topic this month. Six local experts got together to discuss the subject at a recent roundtable hosted by *The Daily Transcript.*

Those experts included Fernando Corona, chief executive of **V-Enable**, Kedrosky from **Ventures West**, Dr. Robert Conn, managing director of Enterprise Partners Venture Capital, Duane Roth, executive director of CONNECT, Edye Bauer, principal in the law firm **Fish & Richardson**, and local technology consultant and columnist Phil Baker.

The roundtable took place on March 18 and is published here.

michael.buchanan@sddt.com
Source Code: 20050411tbb

The Roundtable

The following is a shortened version of the technology roundtable. For a copy of the entire discussion, visit our Web site at sddt.com.

CARR: This roundtable is being held in conjunction with the CONNECT financial forum. What advice do each of you have for startup companies seeking venture capital today.

Fernando, what are your thoughts on this question?

CORONA: The first and foremost is to really understand the market size and opportunity that the product or service is addressing and to articulate that it is a sizable market that can be commercialized.

The biggest issue is to understand the motivation of the money that you're seeking. So, if it is tier 1, tier 2, even tier 3 venture capital money, understand their exit strategy and your exit strategy so that it complies with your overall deployment of the company and life cycle of the company.

The biggest issue that you run into is if it takes tens of millions of dollars to bring the product to market, and the market isn't large enough, the exit won't be there for you because the VC is looking for a specific return and in some cases a very large multiple of 6 to 10X. That has changed over time. But even if there's an expectation of a 5X multiple on the monies put in over the life of the investment, you're looking at a capitalization that's quiet large to get out of. So the market size and the addressable market has to compliment that investment to get you to market.

That's one thing that's got to be addressed in the early stages of building the business plan and addressing the market.

Secondly, you've got to have a road map for bringing on the expertise and talent needed to take the company to its Level 2, Level 3 of deployment. The issue is that it's always the chicken and the egg, because you typically are undercapitalized, and you can't bring in the skill set at the price points that are needed to bring them in. But really address that up front, and talk with the potential investor how you are going to get over that hurdle.

And third is be realistic about the projections. Really understand where the revenue is going to come from and the time frame and scale of that revenue that has predictability.

The last thing you want in the early stages of the relationship with the investor of your project is to disappoint or overestimate what you can actually bring to the table. Set the expectation correctly when it comes to revenue projections and certain operational objectives.

CARR: Bob Conn?

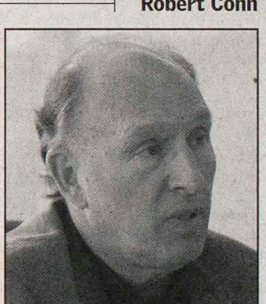
CONN: I think they have to give a great deal more thought to whether what they are looking at is just a small addition to an existing product or whether they have something that is really going to make a large difference to a marketplace.

And my sense is entrepreneurs have to think hard about how they are going to build a business.

We talk to a lot of people, but we aren't going to be in a position to make a decision about investing until we begin to see three things. What will the product be, and why will it be a breakthrough? What is the business plan that actually leads you to success? And what's the penetration model by which you will proceed to capture that success? If you can get those three things into a good package, I think you'll find the venture community willing and able to listen to you and act upon it.

"Entrepreneurs have to think hard about how they are going to build a business."

Robert Conn



CARR: Paul?

KEDROSKY: The way I come at it is asking what's different now than in the past. Because, for the most part, the answer to the question of what are venture capitalists looking for is that they are looking for the same old stuff. Large markets, good management, defensible technologies, and so on. But that was true in 1999 and look where that got us.

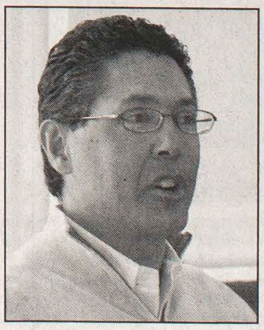
So my response is that you have to be able to answer three questions. First, "Why now?" Because a lot of investments go very badly wrong simply because they are mistimed. This is a great idea, but why is this a better idea now than two years ago or if I wait two years? A savvy entrepreneur must be able to answer the question "Why now?"

Next there is the question "Why you?" The venture industry funded a lot of people in 1999 who were physic professors who wanted to do, say, online pet stores, and we learned that was a bad idea. So being able to satisfactorily answer the question of why it should be you that runs this thing, beyond the mere fact that it was your idea and you'd like to make some money, is crucial.

The last question people need to be able to answer is "What's hard about it?" A lot of people duck that question, and we ducked it a lot in the late '90s, but look for hard problems to solve and then explain what's so hard about what you are proposing. And if there's nothing hard about it, then maybe it isn't worth financing. There needs to be some degree of difficulty to what you are proposing. People shouldn't duck the fact that hard problems are the sorts of things you want to raise money to address, because if it isn't hard, why do you need so darn much of someone else's money?

"The last thing you want in the early stages of the relationship with the investor of your project is to disappoint or overestimate what you can actually bring to the table."

Fernando Corona



So, three questions are key: "What's hard about it?"; "Why now?"; and "Why you?". The rest of it is the usual answer about what venture capitalists are always looking for, but you do need to understand the delta, to understand what is different now from five years ago.

CARR: Thank you. Phil.

BAKER: I work with a number of companies that are raising money. The best way to get a VC to invest money is to get another VC to say yes. I think there's still a herd mentality. Is this the area that everybody else is investing, that they think is important. And I can't tell you how many times I've come across an investor saying I'll be No. 2. That's almost a standard line, and I think that just reflects a lack of guts, to put it mildly; being able to look at something and make an independent decision.

And it may be that many of the investors just don't have time to really investigate a new area.

I think what's real important for these companies is short time to market. No one wants to invest in green bananas when it's 10 years out before they will get anything out of it.

I think it's good in a way. It's a better discipline than it was before where people wouldn't invest in companies that measured their results by the number of eyeballs that came to the Web site, which is not something any of us learned in business school. It's something that was invented in the Internet age.

So fast time to market; is there a realistic product at the end; is the product differentiable, is there some sustaining value; is there something beyond the one product.

IP — I don't know how some of the people here feel, but IP used to be really important. But what happens is with the time to market so short and patents taking so long, by the time you get a patent, your product may already be obsolete. So it may not be as significant. That's where time to market becomes important, and the ability — one way to get to market is to leverage, really highly leverage outside resources so you do what's best and you let others — you do what you know is best and let others do what they know is best.

CARR: Edye?

BAUER: I have two pieces of advice for companies. One relates to what they do with their company before they get to the VC funding, and the second relates to what they do when they receive VC funding.

We see a lot of young companies making serious missteps when trying to position themselves for venture funding. For example, they don't take the appropriate actions to protect their IP, with respect to Phil's point.

A young company doesn't necessarily need to have a patent, but the company needs to be doing everything to protect its technology and its intellectual property to get a patent at some point in the future. Venture capitalists look at the protection of intellectual property very closely. The young company needs to demonstrate it has value such as its IP.

If the company is taking in early investment prior to venture funding, the company should ensure that these funds are taken in appropriately, that it is documented, and that the company has determined that it really does need this sort of pre-VC financing on the terms proposed by the early investors. The company should appropriately negotiate and document the early funding because, while it can be cleaned up later, it's going to cost the company when doing it correctly in the first place would have been cheaper. In addition, it may cause the company to lose out on venture capital funding.

We've noticed that venture capitalists tend to be fairly conservative. They like to see companies that are standard, with all their ducks in a row. They don't like to see anything unusual in the company's capitalization structure or its earlier investors.

The second piece of advice is when the company is at the point when

Technology Roundtable

Financial forum presenters

The Daily Transcript

The following companies will be making presentations at the 21st annual CONNECT Life Sciences and High-Tech Financial Forum April 14.

LIFE SCIENCES

ACEA Biosciences

Founded in 2001, ACEA Biosciences is developing a broad biosensor platform based on proprietary microelectronic technologies for reporterless, real time, high-throughput analysis of living cells and biomolecules. ACEA's products are designed to meet the increasing needs of the life science research and drug discovery markets by providing automated, high-content, real-time analysis systems that simplify complex cell-based assay procedures and increase productivity. ACEA has launched its first product, a real-time electronic sensing (RT-CES) system based on direct microelectronic detection and readout of cell-based assay processes.

Advanced Brain Monitoring Inc.

Advanced Brain Monitoring Inc. is the first company to address sleep apnea, memory dysfunction and alertness monitoring with instrument systems that combine laboratory level accuracy with the portability, ease of use and low cost of consumer electronics. The company's products offer solutions to the problems of workplace, fatigue, diagnosis of sleep and neurological disorders, and evaluation of pharmaceuticals. Advanced Brain Monitoring's enabling technologies can be integrated into numerous products with multiple applications and markets.

Allylix Inc.

Allylix has developed technology that allows it to cost effectively develop and produce a wide range of known and novel terpene products. Terpenes are natural chemicals produced in plants in minute quantities. Allylix's proprietary technology allows it to exploit the commercial potential of terpenes. Allylix's technology is protected by a broad set of intellectual property including six issued U.S. patents and multiple U.S. and foreign patent applications. During 2004, Allylix successfully achieved all of its proof of principle milestones and has begun development of commercial products. Over the next four years, it intends to develop three to five proprietary and partnered products for the flavor and fragrance and ag-chemical markets. Over the long term, it plans to also exploit value in the pharmaceutical market.

AndroScience Corp.

AndroScience discovers and develops novel compounds for the treatment of androgen-related diseases with new and unique mechanisms of action. It has patents on these compounds that show activity both invitro and invivo topically, and could have improved efficacy and safety over currently marketed products in acne and alopecia.

Astral Therapeutics

Astral Therapeutics' products are based on a broad technology platform with patent protection. Astral Therapeutics is in the area of immunotherapy for autoimmune diseases such as type1 diabetes and multiple sclerosis as well as cancer and infectious diseases. Their type 1 diabetes product is one year from clinic.

iDiverse Inc.

iDiverse is an ag-biotech company developing transgenic plants that simultaneously resist a broad spectrum of diseases and environmental stresses — all with the addition of only one proprietary gene. IDiverse's plants are resistant to a wide range of fungi and viruses. They fend off cold, drought, heat and salt. They require less pesticides, fertilizers and water to achieve better yields. They can be grown on less than optimal land under adverse conditions. They are less costly to grow, provide higher yields and are friendlier to the environment. The company's transgenic turfgrass and wheat have been approved by the USDA for field testing. In these controlled trials, the turfgrass demonstrated drought resistance and wheat showed resistance to Fusarium Head Blight fungus, a significant pathogen that destroys over $1.5 billion of cereal crops annually in North America.

Molecular Profiling Institute Inc.

The Molecular Profiling Institute Inc. is a CLIA-certified specialty reference laboratory that helps cancer patients worldwide by applying the discoveries of the Human Genome Project to personalized medicine. MPI provides cutting-edge testing facilities, products and resources for genomic and proteomic profiling, and treatment of cancers. MPI is led by scientific visionaries, clinical oncologists and drug developers with a proven track record of building successful companies, revolutionizing medicine and treating patients. The Molecular Profiling Institute Inc., has strategic relationships with the Translational Genomics Research Institute and Ameripath.

NovaCardia Inc.

NovaCardia is a product-focused pharmaceutical company with significant capabilities and experience in cardiovascular drug development. The company's mission is to vastly improve the quality of care for patients with cardiovascular disease by developing and marketing a portfolio of novel small-molecule drugs.

Orphagen Pharmaceuticals

Orphagen discovers small-molecule drugs to novel targets from the nuclear receptor family of targets, one of the most productive target families in the industry. Major drugs recently introduced from this family are Evista, Avandia, Actos and Inspra. The company currently focuses on early-stage drug discovery at selected, unexplored targets for atherosclerosis, cancer, AIDS, Crohn's disease and sleep disorders. Its technology, with expanding federal grant support, accelerates lead discovery and proof-of-principle studies in vivo.

PhiloMetron

PhiloMetron's CHF therapeutic monitoring system directly monitors the onset/progression of the primary cause of hospitalization, pulmonary edema. This system's disposable "smart band aid" device will continuously monitor the patient and periodically wirelessly transmit the information to a local data collection and display unit for review by the patient and clinician. The system devices and services will be sold directly to hospitals, clinics and chronic disease management companies.

Proveri Inc.

Proveri is a startup company that focuses on the prognosis of prostate cancer outcome. Proveri is in a unique position to rapidly develop prognostic tests that distinguishes aggressive from indolent prostate cancer. The company's technology, licensed from the University of California, San Diego, utilizes biomarkers indicative of aggressive prostate cancer that had been identified in a large clinical trial funded by a $4.7 million grant by the National Institutes of Health, which was spearheaded by Proveri founders.

RegeneMed Inc.

RegeneMed accelerates the development of safer, more effective drugs with high-throughput, predictive human tissue-based assays. Products include living tissue arrays; ADMET/tissue kits; drug target, biomarker and efficacy identification tissue kits; partnered-products (tissues with gene chips, arrays); and contract testing services. Subsequently, medical devices, diagnostics, biosensors, stem cells and tissue implants.

Somaxon Pharmaceuticals

Somaxon Pharmaceuticals is a specialty pharmaceutical company focused on the acquisition, development and commercialization of prescription products in the field of psychiatry and neurology.

TheraPei Pharmaceuticals Inc.

TheraPei is a "spinout" of the Drug Discovery Unit of Sequenom, a discovery genetics company. Sequenom has assisted TheraPei with the transfer of equipment, rent-free space and seed funding. TheraPei is seeking to become a leader in the design of curative pharmaceuticals for Type 2 Diabetes and the associated Metabolic Syndrome (obesity and cardiovascular diseases). This is in contrast to current therapeutics, which address symptoms rather than causes.

Tissue Repair Co.

Tissue Repair Co. (TRC) is a development-stage biopharmaceutical company focused on products that promote tissue repair. The company operates its business with minimal infrastructure, outsourcing most activities. This practical strategy reduces the financial risk of drug development. TRC's lead product candidate, Excellarate, is a topically administered, matrix-associated PDGF gene formulation for the treatment of diabetic foot ulcers. Excellarate has completed a Phase I clinical study in diabetic foot ulcers where it was shown to be safe and well tolerated. In addition, accelerated wound healing was observed in all patients, at all dose levels and treatment regimens, with over 80 percent of patients showing complete wound closure by 14 weeks. The patient sample included wounds that had persisted for multiple years and were not responsive to other treatments. A Phase II efficacy study will begin with the proceeds of this financing.

HIGH-TECH

Anonymizer Inc.

Anonymizer, the most trusted name in privacy, defends consumers, businesses and government agencies with comprehensive online identity protection solutions ensuring their privacy while using the Internet. Anonymizer identity protection solutions have secured millions of users since 1995 without a single security breach, while providing information assurance and control over their online identities. Anonymizer's core Internet privacy and security platform uses proxy servers armed with proprietary encryption technology to rewrite requested Web pages for its end-users, filtering potential threats like cookies, Web bugs and mobile code while shielding the user from identification and online tracking.

CineForm Inc.

CineForm Inc. develops software technologies and products for use by professionals in rapidly emerging, high-resolution film/video acquisition and post-production applications. Its patent-pending video software products offer an increase in performance/price of up to 10X compared to competitive solutions that rely on hardware implementations. Through selective technology license agreements with Adobe and Sony, CineForm technologies have become the acknowledged industry leader, with 85 percent PC penetration expected for the emerging HDV format. CineForm technologies are now being adopted inside video cameras and film-scanning equipment for native high-resolution acquisition. CineForm has been generating increasing product revenue since 2003, and sells its products to end users through its reseller channel and from its Web site. CineForm also licenses portions of its technologies to other video hardware and software manufacturers.

dial4snax Inc.

Capitalizing on the convergence of wireless and Internet, dial4snax Inc. provides state-of-the-art remote ordering systems and wireless applications that connect consumers to local service providers at stadium, arenas, airports, hotels and other large public venues. The company's proprietary and patented system automates the ordering and payment process for food, beverage, souvenirs and other deliverables for the owners of any handheld wireless device (including cell phones, Web-enabled PDAs, two-way pagers, etc.). We enable consumers to get what they want when they want it, wherever they are in a public venue. This service addresses a real need and solves an important problem faced in markets such as stadiums, airports and hotels. To service providers in these markets, dial4snax's remote ordering system presents an opportunity to enhance customer service and increase operational profits and efficiency. With a fully deployed and flexible device-neutral platform, the first mover's advantage, three U.S. patents and 26 pending international patents, dial4snax is poised to have a very strong position in lucrative niche markets of the emerging wireless world.

FinanCenter

FinanCenter provides business software as an application services provider to premier financial services companies. Clients include eight of the top 10 banks, two of the top three insurance companies and the top two consumer portals. Founded in 1995 and best known for award-winning financial calculators for Web sites, FinanCenter now offers LeadFusion, an automated online marketing system, which captures, cultivates and converts online leads. LeadFusion enables financial Web sites to generate customer interest in products or financial decisions, drive deeper investigation and procure customer-initiated inquiries online or in live dialogue. Each site visitor receives a highly personalized experience while financial service providers increase qualified leads and sales revenue.

Incisix Inc.

Incisix creates innovative products that store and manage data with unlimited flexibility, delivering unprecedented data access to businesses. Built on the patent-pending DataFlexer platform, these products help organizations instantly launch projects, recognize extraordinary cost reductions and gain access to new competitive advantages via true business intelligence.

Rhevision Technology

Rhevision Technology was founded by faculty and scientists from UCSD to commercialize its revolutionary technologies on smart optics for mobile and miniature imaging. The company has received exclusive license from UCSD. The company is seeking its seed funding and is working with strategic partners and potential customers to develop its product.

SicommNET

SicommNET was co-founded in 1998 by James Beran to develop online e-procurement systems to automate the buying and selling process for government agencies and for the millions of vendors who supply these agencies. By the end of the first four years, SicommNET had completed BaSEC, the online agency system, with installations in Texas, Maine, Idaho and several local government agencies. Nearly 32,000 vendors are now registered in the vendor database. In 2002 SicommNET launched its second product, the MarketPlace, which has a first year license fee of $320 and is aimed at small and medium sized businesses.

Streamload

Streamload is an online personal content distribution service founded to give PC users a new and much easier way to send, receive and access files. The company fulfills the promise that computers, the Internet, digital cameras, cell phones, MP3 players and other digital devices will make our lives easier and more enjoyable. Streamload's Web site, www.streamload.com, gives you a personal, secure digital library of all your MP3s, movies, digital photos and video and work related documents. You can use the company's fast e-mail service to send files of any size, and remotely download your files to another computer.

U.S. Techlab Inc.

The U.S. Techlab system is the first mobile, wireless point-of-care solution for managing electronic medical records designed for physicians and nurses. It combines a comprehensive, easy-to-use software interface that allows workflow to be tailored to the caregivers' needs with a convenient, powerful handheld platform that allows electronic collection and management of all patient information without slowing the physician down. The USTL solution readily integrates with any legacy system, creating system interoperability between existing back-end systems.

Zoom Systems

Zoom is creating a market in Automated Retail, a multibillion-dollar channel for unattended credit-card purchases of items ranging from amenities to multihundred-dollar branded consumer electronics like iPods. Just like ATMs revolutionized banking, Zoom can displace tens of thousands of manned storefronts, kiosks and gift shops: Anywhere staffing exists to process transactions and prevent theft, Zoom will be cheaper, more convenient, provide better product intelligence and service, and be open for business around the clock. Zoom supplements retail stores. ATMs "attached themselves" to banks and retail stores; Zoom can also go into tens of thousands of retail locations. Zoom has a clear plan to build a billion-dollar market cap company with 2,750 robot shops by the end of 2007. The machines work, customers buy, cash flow per machine is solid — all that's left is to scale this up.

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KEDROSKY: Well, the private equity industry — which includes hedge funds, venture firms, and the buyout folks as well — has been growing extremely quickly. Matter of fact, it's generally thought to be the fastest-growing asset class in all of money management, and it's growing just as quickly here in San Diego as it is anywhere in the country. Private equity, including hedge funds, has grown from round-off percentages of the institutional asset class, to something like 7 or 8 percent across the U.S. I see new hedge funds on what feels like a weekly basis.

Do those things make a difference in terms of the growth of early stage companies in Southern California and San Diego? I don't know. It is certainly not a direct relationship, the way it is with venture capital, but people who look at investing in hedge funds also end up looking at venture funds. The result is that more money for the former generally leads to more money for the latter, which is good for early-stage companies.

CORONA: The piece that concerns me is, have we really learned our lesson? Since there is excess capital out there that needs to be deployed and is outpacing the deals that are getting done, we have a serious overhang effect occurring. The fear is that given this imbalance, will the VC community start doing deals that either don't justify an investment or will put too much money to work into a company that doesn't need that much and then causes an exit problem?

CONN: I think that's a profound point. To supplement what Paul just said, there is potentially more money in venture capital as an asset class today than there might have been in 2000 but it's not being deployed at anything like the rate in 2000. The rate of deployment of venture money last year was about $20 billion. And that's about the level it was pre-bubble. In other words, we're back to a norm. It was north of $80 (billion) to $90 billion going into startup firms in 2000. So the money may be there, but it's being deployed in a more appropriate way, if I could put it that way.

I think the thing to worry about in terms of too much money is related to something Paul also hinted at. When interest rates are under 5 percent, when the stock market is flat and just kind of cyclical, but there's the same amount of money out there. So people are looking to other asset classes for better returns.

And so the venture community, the hedge fund community and others are to some degree going to be overfunded. So there's been more money going into these other asset classes including venture capital.

As such, I think that over the next three to four years, there will be more money in the venture capital community than there will be quality deals of early stage venture companies to invest in.

CARR: Will marginal companies be funded? Is this the inevitable outcome?

CONN: I think there's going to be a very strong discipline required on the part of the venture community to invest in quality deals, where you can build the businesses that Fernando and others have talked about and really capture a return. The temptation to put money to work will be high.

I think that's going to be a bit of what we'll see over the next three to four years — more money than can sensibly be put to work in early stage. I think once we get north of $20 billion a year going into venture companies, we will be putting too much money in.

CARR: What is venture money looking for today versus what venture money was looking for five years ago? I'm asking about specific technologies. What's hot?

CORONA: Wireless is clearly hot, particularly on the applications and content side. If you look at the application segment, there have been some pretty interesting evaluations over the last 12 months. We have a few IPOs in the market; there have been several acquisitions. There could be a mini-bubble because there's a lot of consolidation happening today and some of the valuations are still hard to justify.

One thing that money is looking for is not a solutions looking for a problem. It is looking for a true solution that's addressing a real marketplace that's quantifiable.

I believe what we had three or four years ago is some very cool technologies, but when looking at the market opportunity, you couldn't address it or it wasn't large enough to justify the funding over the life of the investment.

So I'm seeing a lot of interest around the wireless space. If you look at 1.5 billion devices worldwide by 2007, it's a significant market. It's a question of what are the technologies within wireless that are going to be adaptive to the mass market. It can't be a niche because it doesn't scale or won't give you the type of return that's needed to justify the investment over the long term. The marketplace itself is large enough to justify the kind of attention that the investment

Technology Roundtable

VCs are interested in investing in the company. It's very important that the company and the entrepreneur understand the deal and what the terms of the deal mean. After the technology bubble burst, venture capitalists really closed down on the type of terms that they were giving companies. The VCs imposed very onerous terms on the companies, and founders have found that, at the end of the day, they were not going to own much or any of the companies they founded.

Recently, these deal terms have swung back to being more company-friendly. But, if the entrepreneur doesn't know what the deal terms mean, such as a liquidation preference or anti-dilution protection, and what the standard deal terms are for his or her industry, the entrepreneur may make mistakes in the negotiation of the deal with the VCs that will directly affect the value of the company for the early investors and the founders.

CARR: Duane?

ROTH: I'll answer with the caveat that I have a very short tenure, six months. However, I, like many of us in the community, have been around CONNECT a long time and relate to its enormous contributions to the region over the past 20 years. Now that I'm on the inside, I can observe how the entrepreneurial community feels about this great San Diego institution. It is a neutral place where inventors and entrepreneurs come to seek advice, expertise and funding from the community. I wrote down three "tions" that I would focus on — innovation, sophistication, and determination.

The first is the innovation. I think you have to spend a lot of time really considering what is innovative about your idea. A lot more sophistication is required in terms of all aspects of the business model. And there needs to be a clear path to the commercialization of the product or service. There are so many aspects of the business you need to have thought through. You can have a great invention, but if you can't define how it will be commercialized it will not get financed.

We talked about patents just a minute ago. What is the enabling base for your patents? We talked about management and how important experience and expertise is. There are so many touches that have to be made to get funding today and I think that's what is different about San Diego versus 20 years ago when CONNECT was founded. It requires a lot more sophistication.

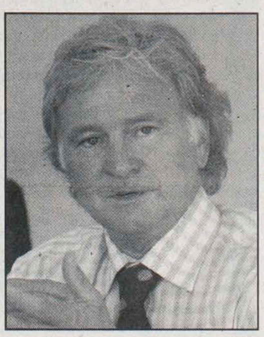
And the final thing is determination. Determination is going to be required regardless of how innovative and how sophisticated you become. Because, without an overwhelming will to see the idea through, you will not succeed. There are so many challenges that you are going to be faced with as an entrepreneur that you have to have exceptional willpower to see the idea through. You'll be told "no" a lot.

CORONA: One of the key things for the entrepreneur to do is due diligence back on to the VC. There's a lot of money to be put to work, but there's a limited number of partners with each VC. If you can address the VCs who have complimentary companies in their portfolio that create energies with yours, it could improve your odds of getting their attention. It isn't a slam dunk by any means, but it gets you closer to them. You can build this into your presentation where there's already an existing portfolio company that can actually benefit by either your technology or service.

I think it's up to the entrepreneur to really pick and choose. The shotgun approach is history. I don't think you can do that anymore. You really have to pick and choose the VCs that you're pitching.

CARR: Bob Conn, looking back on the San Diego technology community five years ago, how do we stand as compared to that time?

Duane Roth



"We're educating very high quality students ... and after they graduate current immigrations policy is dictating that a lot of these very talented people must return home."

CONN: I think things are getting better right now, but I question whether you really mean five years ago, or four years ago, because five years ago was 2000. Four years ago was 2001. And there was a world of difference between those two starting points.

So 2000 is not a place to measure from. It was essentially the height of an exuberance that Greenspan spoke about and nobody quite believed him at the time, but it sure was a bubble.

And 2001 saw a true crash. And we seem to get them every 30 years as we have collective memory loss about what constitutes value creation.

So looking back from 2001 or 2002, when I think things were very difficult, I would say things are much better. And if I look at what's been happening in the venture community where I can speak with some knowledge — and I just look at our own firm, in 2001 and 2002 we were gathering up the pieces; things were no longer going up. They were going down. Things that we thought had great prospect ended up going away, other things had to be restarted.

We began to see a turn in 2003. And in 2004, we saw quite a bit of activity here in San Diego and in California generally. Just to give you some metrics, we did 12 investments in 2004. We're six partners at Enterprise Partners making investments, and out of 12, a third of them in biotech and two-thirds in IT. By contrast, in 2003, we made only six new investments.

So I think this pace is indicative of entrepreneurs re-emerging; what we believe to be good opportunities re-emerging, and a willingness to invest. And a good deal of that has been in San Diego. From what I'm seeing, just here at the beginning of 2005, I think there are going to be more opportunities for San Diego.

If you look at the amount of venture investing that is tied to the building of the base of high-technology in our region, we are now, as a region, second only to Silicon Valley in California, and fourth in the United States after Silicon Valley, Boston and the greater Washington, D.C., area. We've had in 2004 more than $1 billion invested in San Diego startup companies at all stages. And that's a record for San Diego. If you combine San Diego with Orange County — and by the way, San Diego is larger than Orange County and L.A. combined — you'll get about $2 billion for the whole Southern California region. So we're a very dynamic place and the summary is that compared to 2001, it feels much better. Compared to 2000, nothing compares. And I would sort of leave that as the synopsis.

CARR: Phil Baker, you had some thoughts before we went on the record about how things look from the company standpoint.

BAKER: I think when we talk about how things are going, we need to distinguish between how companies are doing and how employees are doing. But from my observation in talking to engineers and managers that are in the — in the high-tech community, the employees don't have it as well as they did back in 2000. I don't think anyone has it as good, but I think the recovery may be better for the companies than for the employees.

I think the companies, through difficult times, have learned to be able to do with less, and as a result they've become more efficient. Employees are finding it more difficult to get the kind of salaries they once got, and so they are taking jobs for less pay. At the same time, they are facing the higher cost of housing in this area, and it's been difficult to bring people to San Diego. I think people are being asked to do more, and they are also probably looking over their shoulders at the outsourcing going on, wondering about their job, I'm involved in working with a number of companies who are trying to use resources offshore to become competitive. And it's becoming much easier for companies to do work offshore. Even small companies with just a few employees can find resources to become more competitive.

So as a result, I think, some employees are probably threatened, are a little more concerned about keeping their job, and worried about seeing it vanish to somebody on the other side of the ocean.

CARR: Duane?

ROTH: I have a different view. To my knowledge, salaries in the tech community continue to increase. The overall numbers are up both in terms of pay and in terms of number of new jobs. I think perhaps the feeling that total compensation is not as good as in the past is that options have not increased in value to the degree they did in pre-2000 days, when many employees became instantly wealthy based on appreciation of their options.

But I don't believe, at least in the technology community, that people are compensated less in terms of direct pay nor do I believe that it is difficult to find good jobs.

On a related subject, I do think it is important that we make an effort to educate our young people on the need to have good science and math skills. With the median price of homes in the $500,000-plus range and virtually no prospects that they will be returning to $150,000 anytime soon, it is important that all young people, and their parents, realize that our economy will be centered on innovation and it's in everyone's best interest to be prepared for the best opportunity for employment in the knowledge economy.

CARR: Fernando?

CORONA: I think there has been more realism from the entrepreneur and the employee base compared to what happened in 2000. There was a period of time where it was the get-rich-quick scheme environment, give me a lot of stock options, I'll take no pay, and we'll make it up on the back end. That has gone away.

The entrepreneurial spirit is coming back. The typical entrepreneur that had a great idea, and there is no lack of good ideas, particularly here in San Diego, has been very scared the last couple of years. You kept hearing of down rounds, extremely low valuations, the founder getting thrown out on his ear, etc. That sort of talk while searching for capital made it very difficult for entrepreneurs to take that step off the cliff and say, I'm going to go start a new company and leave my six digit salary.

I think that's changing, I'm seeing over the last 18 months more deal flow. There are business plans being proposed and investors taking early stage meetings. What has changed is how you get to market; the business strategy has taken a more leveraged approach. People have gotten smarter.

The whole idea of ongoing business development is over. I think the concept of business development has moved to what it really meant in the old days, true sales development. Not just in search for an idea or business relationship but really in search of revenue. What's different is that these new entrepreneurs starting a business are really seeking revenue and seeking partnerships that can leverage or scale their business without just throwing dollars and people at it.

I do believe that the new entrepreneur has been re-educated over the last 24 to 36 months to build companies on more of a foundation of sales and not just a good idea.

KEDROSKY: I think people are recognizing again that hard things are hard. I mean, the things that looked awfully easy for a couple of years in the late 1990's were briefly easy, but are in general very difficult things — that is, building a company that's got any staying power, building a company that can generate profits, building a company that can last once you wean it off external sources of capital. There is a recognition, again, that those things are hard. And that's a good thing.

On that point, I'll give you a counter-cyclical example. A cynic would say that universities are a contrarian indicator of what's going on in the so-called real world. With that in mind, there are often student business plan competitions inside of universities like UC San Diego.

In my experience over the last decade, those things tend to become most popular just when things are at their frothiest in the broader economy. That is when you get the most plans, and when get the craziest Mad Hatter ideas.

But in the last two years, it's actually been very difficult at UC San Diego to get a business plan competition going. As perverse as that might sound, that's actually a very healthy thing. It's a recognition that hard things are hard, that creating something that is meaningful, and not just a bumper sticker for a business idea, is tough to do.

"It's very important that the company and the entrepreneur understand the deal and what the terms of the deal mean."

Edye Bauer

CONN: If I can add one point about salaries. I think Phil has made an important distinction between the employees and the companies. Yet what Duane said he's seeing with respect to average salaries is also right, you're both right. Qualcomm is paying probably what it takes to get the best employees to San Diego when they are recruiting them from outside. But at firms that are here as startup companies, there has been a diminution in the pay. And I've seen that both here and at Silicon Valley. So things are back to a more reasonable level. I've actually seen in the past year the market start to get tighter; the salaries, to get the right people, are starting to move up. But they are not moving up to the froth level. So while the average salaries of technology people may be going up, that's a blend of start-up companies and the Qualcomms of the world.

One of the things I worried about when I got here in 1993-94 was that firms getting started in IT often moved to the Valley to get CEOs.

In the late 1990s, we seem to have gotten over the hump and we were actually attracting people out of the Valley to San Diego in part because there was a cost differential between the Valley and San Diego. Well, that cost differential has now gone away. Between 1999/2000 and 2005, San Diego has caught up to the Valley with respect to real estate prices in particular. As such, I think an issue for us going forward will be our ability to attract the right people into the entrepreneurial companies here — time will tell.

I will tell you, since I invest both in the Valley and here, that there is a very large infrastructure in the Valley of people already there. So you can still find the people you need there for startup companies. We, I think, still continue to need to draw people here who will be part of those who go into startup companies. Senior talent, people who will take the first CEO position in a startup company. And our talent pool is not quite as large.

So one of the things I think will play out, and that we should keep an eye on, is, "Do we continue to have the kind of self-sustaining talent pool that will not only allow the larger companies to continue their growth, but also feed our smaller companies?" I'm not saying it's a disaster coming. I'm just saying it's something to watch.

CARR: Edye you work in mergers and acquisitions. What are you seeing in that arena as it compares to four or five years ago?

BAUER: Well, we are still seeing a shake-out of the companies that were funded in the last four or five years and couldn't make it. These companies are looking at either going into bankruptcy or being acquired by various different companies for very small amounts of money. These companies were venture backed by very solid venture capital firms; which invested say $60 million or $90 million for companies that are now worth, say, $2 million or $3 million as acquisition targets. We've seen a lot of that over the last two years and I think we are at the tail end of these types of deals. We are now seeing more mergers based on an exit strategy — a good company that's built value and is being acquired by a significant company providing an exit for the company's investors.

We're also seeing synergistic mergers again in which two strong companies are moving together through a merger to create even more value than they could as separate enterprises.

CARR: Are companies looking for acquisitions seeking a particular technology?

BAUER: I wouldn't say there is a preference for a particular technology. We do see these acquisitions across the board. I think there are still a number of companies recovering in the biotech industry. A lot of the companies we're seeing attempted to evolve into drug discovery companies during the last major downturn in the biotech market. They attempted to find a more solid platform for making money and realizing value for their shareholders. A lot of those companies didn't make it. As we just discussed, we are still seeing the tail end of this play out in the market.

CARR: Duane, you are, in my mind, most closely connected to the biotech industry, although I know you work with all technology sectors in your role at CONNECT.

What is the state of the biotech industry in San Diego today?

ROTH: I would describe it as very healthy despite the setbacks and many of the challenges that the industry faces in developing new medical products. New companies are being created all the time and these companies are based on some really sound science.

There's so much money coming into the San Diego region in terms of contracts and grants from the National Institutes of Health, the National Science Foundation and Department of Defense, etc. that more and more companies will be created — something that is near to my heart at CONNECT. We've had some challenges in San Diego in growing fully integrated companies as many of the most innovative have been acquired or merged with other companies.

However, on closer examination, we have done pretty well with this. Agouron as one of the example, it was acquired by Warner Lambert then eventually by Pfizer. Pfizer today has over 1,500 employees working in R&D, which is one of the largest efforts in the region. Idec merged with Biogen and is headquartered in Boston. However they have a very large San Diego R&D group and are nearing completion on one of the world's most advanced manufacturing facilities in Oceanside.

I do believe what we're really good at early stage company formation. Moving ideas out of the medical centers, research institutions into entities that begin the commercialization process. While exit strategies are still evolving, I think we're finding new ways to create value. .

CONN: Can I add a comment to that? We're seeing that very strongly. If you looked at the investments in the last half of 2004 in venture capital in San Diego, close to 70 percent of it went into biotech companies. So we had more than $500 million in the second half of 2004. $300 million or more went into the biotech arena. Something close to $150 million thus went into IT. So two-thirds of the capital that's being invested in new firms here is going into the bio industry, and I think that's an indication of the vibrancy of our region in this area.

I would also add we, at our firm, had three IPOs in the last two years. The first one was an IT IPO, and was the first venture-backed IPO coming out of the nuclear winter of 2001 and 2002. But last year we had two IPOs, NuVasive and Adeza, and they were both biotech companies. So the market was receptive to both of those companies going public as opposed to M&A. These now are public San Diego headquartered companies. And those elements, the venture money going into the region and the potential for exits, both M&A and IPO, I think support what Duane was indicating; namely, it's quite vibrant, the biotech side.

CARR: In keeping with this theme of comparing four to five years ago with today, two questions: First, is there more money available today than there was five years ago versus four years ago?

And second, what is venture money looking for today versus what venture money looked for four or five years ago?

ROTH: Paul is the expert on that.

KEDROSKY: The fast answer is yes. There's actually some interesting data on this, and the upshot is that there is more money available today from venture capitalists today than there was at the peak of the technology boom. It depends on whose numbers you want to use, but there's something on the order of 7 to 12 percent more money available today than there was in early 2000. That is either positive, or distressing, depending how you want to look at the venture industry.

CARR: Excuse me, Paul. Are you saying there is 10 to 12 percent more money available today than was available in 2000?

KEDROSKY: Yes. You see, venture funds have a life cycle of around eight years. Funds that received money in '99 or 2000 or 2001 didn't disappear just because the market became nasty — unlike a normal business. Venture firms do not have to shut down when times are briefly bad: Their investors give them a fixed period during which to manage the money.

With that in mind, in the fourth quarter of 2004 the number of active venture firms operating in the U.S. actually surpassed the number operating in 2000 at the peak. That is a startling figure to folks who thought that the same sort of nuclear winter that happened in early stage companies somehow ravaged the venture industry. It didn't.

What happened instead was that most venture folks pulled back and weren't investing as aggressively. They didn't have the same expectation of return, and the opportunities weren't as interesting.

So the capital never really went away. As a matter of fact, in terms of active firms, it's grown and we've seen that right here in San Diego with Avalon Ventures closing with $75 million in capital at the beginning of February with some marquee investors contributing to it.

So the money is out there — it is a little like the "X files." It just wasn't being actively invested. And that, again, made perfect sense, but the result is that we have more capital than ever today.

ROTH: Paul, could you comment on hedge funds and their impact?

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