

October 2009

Welcome to the Q3 2009 San Diego Edition of the PricewaterhouseCoopers MoneyTree Survey, in partnership with the National Venture Capital Association.

After the downward trend in venture capital investing, second quarter 2009 showed the first signs of a potential reversal of this trend with the credit crisis easing and the deal activity beginning to increase. Third quarter reflects a sustainment of the second quarter investing trends, good news for our local economy. Our local life science sector continues to lead the way with \$140 million invested this quarter in 14 local companies. Third quarter investment's also included a few deals in the industrial energy and software space, something we had not seen over the past two quarters, dominated by biotechnology deals.

While the current economic environment remains challenging for many San Diego companies, investments in San Diego companies increased, while total dollars invested in the region remained consistent with the prior quarter. The good news is that investors continue to see opportunities in San Diego, sentiments shared by Kim Kamdar, Principal with Domain Associates L.L.C. In August, Domain Associates closed Domain Partners VIII, a \$500 million venture capital fund devoted exclusively to the life science industry. Ms. Kamdar was gracious enough to talk with me and Vanessa Herbert, a Pharmaceutical/Life Sciences Senior Manager about the fund as well as her thoughts on the San Diego life science industry.

Additionally, Vanessa and I met with Stephen Keane, Chief Executive Officer and Peter Emtage, Chief Scientific Officer of Femta Pharmaceuticals. After closing an additional funding this quarter, we were afforded the opportunity to learn more about Femta and their views on fundraising.

PricewaterhouseCoopers in San Diego has extensive expertise and resources devoted to advising and assisting life sciences, technology and clean technology entrepreneurial companies. Our experience and contacts are more important than ever in this challenging economy. If you would like to find out more about how we can help you, please do not hesitate to contact me at (619) 744-8116 or w.molloie@us.pwc.com.



William Molloie
Partner

**PricewaterhouseCoopers/
National Venture Capital Association
Money Tree™ Survey**

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Q3 2009 Edition**

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On August 10th, Domain Associates announced that it had closed its eighth fund, Domain Partners VIII, a \$500 million venture capital fund devoted exclusively to the life sciences industry.

Domain Associates, L.L.C. was founded in 1985 and is a venture capital firm with an exclusive focus on life sciences with \$2.7 billion of capital under management. These funds have created and invested in over 200 life science companies.

Domain's three major investment segments are biopharmaceuticals, medical devices and diagnostics. Domain's investment activity includes, venture investing, public market investing and company formation.

We had the pleasure of discussing the success of Domain with Kim Kamdar a Principal with Domain Associates.

Dr Kamdar's present board memberships include Altair, EPIC Sciences, Nuon Therapeutics, Obalon Therapeutics, ROX Medical, Sonexa Therapeutics, Syndax Pharmaceuticals and Tragara Pharmaceuticals, as well as observer status at Achaogen, Corthera, GenVault, Lithera and SkinMedica. Kim serves on the Advisory Board of the Scripps Translational Science Institute. Additionally, Dr. Kamdar serves as an Advisory Board Member for Evolence India Life Sciences Fund, a private equity fund providing growth capital to Indian pharmaceutical and biotechnology companies. Kim is a Kauffman Fellow Alum and formerly was a Research Director at Novartis.

Vanessa: Kim, thank you for agreeing to talk with us this quarter. Raising and closing a venture fund is no easy task, particularly given the recent economic environment. Overall, according to the National Venture Capital Association, only 17 funds raised money in the third quarter, the smallest number of venture funds raising money in a single quarter since the third quarter of 1994. Perhaps you can share with us a little about Domain's fundraising.

Kim: As you mentioned, we are pleased to have closed Domain Partners VIII ("Fund 8"). We believe the fund is the appropriate size and continues to support the vision of our investment team.

Fundraising was no easy task this time round. Given the economic environment, this fund raise involved more meetings with our investors. We are thrilled with the trust and confidence our investors have shown us. Our successful investing track record, as well long-term relationships with our investors were amongst the keys to our fundraising success. With this raise behind us, we can get back to work, focused on investing in and growing life science companies, with the goal of returning capital to our limited partners.

The majority of Domain's investments are in the Series A round, or the first institutional financing. We also focus a lot on company creation, particularly my colleagues Eckard Weber and Debbie Liebert. We may start with an asset that we find compelling or merely a concept. Often we organize Domain days, where we gather thought leaders to help educate ourselves in a particular area. In these instances, we recruit talented proven management teams to run these companies.

Bill: Third quarter has seen the continued investment levels we saw in Q2. Southern California continues to be in the top three geographies, behind Silicon Valley and New England receiving venture capital investments. Any insights into this upward trend we are beginning to see?

Kim: Good companies, with solid management teams continue to get funded. Good management teams with the proven expertise are critical when I consider investments. I look for companies that are addressing unmet medical needs and have a plan for meeting that need with a clear clinical and regulatory path.

In terms of the Southern California area, the San Diego region continues to be a great epicenter of development, innovation and collaboration. However, our local community can't rest on its laurels; it needs to continue to have and support innovation because it is certainly worth continuing to build and preserve this environment.

Bill: You have talked about Domain's investing strategy. What are you seeing in terms of syndications?

Kim: One of the major changes in financings in this current environment is the emphasis on the syndicate. Formerly it was enough to know that the parties were like-minded and would continue to work well as times get tough. Now there is a great deal of focus on whether the syndicate is strong enough and will all the parties be able to support the company on a go forward basis. There will be attrition in the venture community unfortunately.

With lower valuations we are seeing more insider rounds; however, low valuations have also provided opportunities for new investors. Some companies have invited new equity investments for the same valuation offered to investors perhaps 2 years prior despite meeting a number of value creating milestones.

Vanessa: Can you give advice to companies that are facing challenges in this economic environment?

Kim: As I have heard my colleague Brian Dovey say, "you can not save your way to success." Management teams need to focus on critical path and those activities that will create value. If possible, companies need to leverage what they are developing. Many of the Domain portfolio companies are seeking SBIR, NIH, NCI grants and/or loans as well as seeking equity investments. This can help extend the runway and leverage the equity dollar.

Vanessa: Thank you for sharing your views with our readers. We look forward to hearing about Fund 8's investments, particularly in San Diego in the upcoming quarters.



F E M T A
P H A R M A C E U T I C A L S

We had the pleasure this quarter of meeting with Stephen Keane, President and Chief Operating Officer and Peter C.R. Emtage, Chief Scientific Officer of Femta Pharmaceuticals.

Stephen has more than 20 years experience in the biotechnology industry during which he has led the negotiations of the sale of two public companies, SIBIA Neurosciences and Corvas International, as well as numerous strategic corporate alliances, established joint ventures and lead public and private financings.

Peter is an immunologist by training and has focused the past 15 years on developing drugs to modulate the immune response in humans. He has advanced drug candidates from early pre-clinical through IND submission and into late stage clinical development. Peter was an instructor in Medicine at the Harvard Institutes of Health, Harvard Medical School. He has also held positions at Aventis Pasteur and the National Cancer Institute.

Bill: Thank you for agreeing to be part of our MoneyTree™ third quarter publication. First, we want to congratulate you on your Q3 financing.

Stephen: It is our pleasure. We appreciate the opportunity to share more about Femta Pharmaceuticals with your readers. Femta was founded in June, 2008 and over the past 15 months has been quietly focusing on development of our monoclonal antibody programs. .

Vanessa: Can you tell us more about Femta?

Stephen: Femta is a fast-follower/bio better company focused on the development of therapeutic monoclonal antibodies for the treatment of various disease states, with applications in inflammation and auto immune disease and oncology. Femta develops high affinity; high specificity monoclonal antibodies with improved effector functions that we believe will provide a more favorable safety and pharmacokinetic profile.

Peter: We have formed a corporate alliance with BioAlta, LLC to utilize its proprietary protein engineering technology that facilitates the selection and optimization of desired biological features into the antibody of choice. This technology allows us to develop the high affinity antibodies which will contribute to making our products more efficacious, lower toxicity as well as the potential to reduce drug dosages.

We have chosen therapeutic targets based on validated data generated in either human clinical trials or extensive animal based in vivo studies and those targets we believe have significant market potential.

We are about a year from filing an IND and could potentially be in phase I trials within 9-12 months.

Bill: Femta received its initial funding in June 2008 and has operated in a 'semi-stealth mode' over the past year. Can you tell us a little about Femta's business model?

Stephen: Your right! We spent the 15 months focusing on development of our programs and only recently have we started to inform potential partners and investors about our programs. We pride ourselves at being able to move quickly and I would like to highlight some of our accomplishments over the last 12 months:

1. Identified 5 targets for antibody development
2. Humanized our IL-6 monoclonal
3. Affinity matured the humanized IL-6 monoclonal
4. Generated novel IP on 10 high affinity anti IL-6 mabs
5. Signed CMC contract with Lonza UK
6. Lonza cell line development underway
7. Negotiated licensing agreement with Lonza around our mab in their GS system
8. Screened fully human mab library for hits against the p40 subunit of IL12 and IL-23
9. Screen fully human mab library for hits against IL-23
10. Under development, rat PK for IL-6 and monkey collagen induce arthritis model
11. Launched our website

We are a virtual company with offices here in San Diego, but outsource our research and development. We have a very talented scientific advisory board and Board of Directors. By design we are capital efficient, this we believe will be one of the key models for Biotech and Pharma companies in the future.

Vanessa: You mentioned earlier that Femta is a 'fast-follower;' can you elaborate?

Stephen: Sure. This strategy is to benefit from quickly following the first to market. Our goal is to be second, third or even fourth to market with a highly efficacious and safe drug, thus biobetter. Often, the second mover is actually able to capture a greater market share, despite having entering the market later. Second movers often surpass the market share of the first to market; the fast follower knows the importance of bringing an improved product to market by gaining intelligence from the market on the first mover into the market. The fast follower can learn from the experiences of the first mover. The fast follower also does not have the degree of costs associated with educating the public about the target and we are happy to let the first entry in the market carry the load on developing that interest.

Peter: We believe Femta's products will be safer at the end of the day, a better molecule and different from our competitors. Our products will have reduced toxicity as well as better modulation of the target.

Bill: Femta raised funds during a particularly difficult time. Any thoughts, insights or lessons learned that you can provide the market?

Stephen: Many investors are continuing to primarily support their portfolio companies and not make new investments, leaving remaining investors to be more particular, resulting in a general higher quality of technologies getting funded. In addition, given the capital required to bring a drug to market, going forward I think that capital efficient companies will be much more attractive to investors. A virtual, low overhead model, similar to Femta's business strategy is a new reality.

Vanessa: Thank you both for agreeing to met with us, we look forward to hearing about Femta's future successes.

HIGHLIGHTS OF RESULTS



National Venture Capital Association



START UP AND EARLY STAGE COMPANIES RECEIVING MAJORITY OF VENTURE CAPITAL INVESTMENTS IN SAN DIEGO

Life Sciences sector continues to lead the way

San Diego, October 19, 2009 – During the third quarter of 2009, 32 local companies received a total of \$236 million in venture capital investment representing an increase of 18% from the third quarter of 2008, when \$200 million was invested in 26 companies and a decrease of \$16 million, or 6%, from the immediately preceding quarter, when \$252 million was invested in 28 companies.

Of the total \$236 million invested in San Diego companies, \$155 million, or 66% was invested in the Life Sciences sector. "Total third quarter San Diego investment increased 18% from Q3 2008. As in prior quarters, our local life science sector continues to lead the way in dollars invested and deal with 18 local companies receiving investment this quarter. After a downward trend in venture capital investing, the second quarter 2009 showed the first signs of positive investment trending with deal and dollar activity beginning to increase. The third quarter results reflect a sustainment of the second quarter investing levels, with six companies receiving seed investment and 22 investments, 11 each, in early stage and expansion stage companies. The number of third quarter investments in local companies other than those in the Life Sciences sector increased over the second quarter to 14 companies." commented Bill Molloie, partner at PricewaterhouseCoopers and leader of the San Diego Life Sciences practice.

Nationally, venture capital investments were up \$691 million during the third quarter of 2009 compared to the second quarter of 2009. In the third quarter of 2009, \$4.8 billion was invested in 637 companies. This total investment represents an increase of 17% from the previous quarter when \$4.1 billion was invested in 657 companies. The results for the third quarter of 2009 compared to the results for the third quarter of 2008 show a decrease in investments of 33%, when \$7.2 billion was invested in 994 companies.

INDUSTRY ANALYSIS FOR SAN DIEGO

The Life Sciences sector (which is comprised of Biotechnology, Medical Devices and Equipment, and Healthcare Services companies) received the vast majority of the investments during the quarter, with a total of \$155 million, or 66%, of the total funds invested in San Diego. This compares to \$159 million, or 63%, of the funds invested in the second quarter of 2009 and \$24 million, or 12%, of the funds invested in the third quarter of 2008.

"Similar to the prior quarter, a majority of the investments are start up (seed) and early-stage funding, with the two largest transactions of the third quarter being early-stage funding and representing 52% of the total quarter's investment in the sector. Even with the small opening in the initial public offering window, venture capitalists appear to continue focusing their San Diego investments towards initial stage companies," commented Vanessa Herbert, Senior Manager at PricewaterhouseCoopers.

The Industrial/Energy sector received the second largest investment during the third quarter of 2009 at \$33 million, or 14%, of the total funds invested. This is a decrease compared to the second quarter of 2009 when \$66 million, or 26%, of the total funds invested in San Diego went to Industrial/Energy companies.

The software sector received the third largest investment during the third quarter of 2009 at \$32 million, or 13.5% of total funds invested in San Diego. This represents an increase compared to the second quarter of 2009 when \$7 million, or 3% of total funds invested in San Diego went to this sector.

The Networking and Equipment sector received \$13 million of investment during the third quarter of 2009. In the preceding quarter, the Networking and Equipment sector received no investment.

STAGE OF DEVELOPMENT

Of the total funds invested in San Diego companies during the quarter, 67% went to start-up and early stage companies. This represents an increase from the previous quarter when 57% of invested funds were seed and early-stage investments. Further, 14% of total funds went to later stage companies, a decrease from the 37% in the preceding quarter

Nationally, the distribution of invested capital into start-up and early stage companies experienced a decrease as compared to the prior quarter. During the third quarter, 33% of investments went to start-up and early stage companies, compared to 40% in the prior quarter. However, the investment in expansion stage and later stage companies both experienced a slight increase as compared to the preceding quarter. During the third quarter, 33% and 34% of invested funds were made in expansion stage and later companies, respectively.

San Diego	Startup/Seed	Early	Expansion	Later
Q3 2009	17%	50%	19%	14%
Q2 2009	38%	19%	8%	35%
Full Year 2008	8%	27%	27%	39%
National	Startup/Seed	Early	Expansion	Later
Q3 2009	11%	22%	33%	34%
Q2 2009	14%	26%	31%	29%
Full Year 2008	6%	19%	37%	38%

NOTEWORTHY SAN DIEGO INVESTMENTS

The three largest investments this quarter accounted for 43% of the total funding in San Diego, with the top ten deals accounting for 83% of San Diego's total funding.

The top ten investments in San Diego companies for the third quarter of 2009 were as follows:

Company	Investment	Company	Investment
Roka Bioscience, Inc.	\$37,200,000	BeneChill, Inc.	\$13,500,000
Zogenix, Inc.	\$35,958,000	Rayspan Corporation	\$12,500,100
Intellikine, Inc.	\$28,500,200	Achates Power, Inc.	\$12,125,200
DriveCam, Inc.	\$19,000,000	Medsphere Systems Corporation	\$12,000,000
Liquid Environmental Solutions Corporation	\$15,000,000	Altair Therapeutics, Inc.	\$11,000,000

REGIONAL RANKINGS

Overall, San Diego's regional ranking decreased slightly as compared to the preceding quarter, receiving the sixth largest investment of any region, 4.9% of nationwide investments, compared to 6.1% in the second quarter of 2009. Southern California (San Diego and LA/Orange County) ranked third nationally with investments of \$476 million for the quarter.

The top ten regions for the third quarter of 2009 are listed below, including number of deals:

Region	Investment	# of Deals	Region	Investment	# of Deals
Silicon Valley	\$ 1,234,007,900	210	San Diego	\$ 236,328,500	32
New England	\$ 558,829,600	86	Southeast	\$ 212,843,100	33
NY Metro	\$ 251,258,900	50	Texas	\$ 197,923,500	23
Northwest	\$ 241,624,800	30	DC/Metroplex	\$ 167,026,500	21
LA/Orange County	\$ 239,182,000	33	Midwest	\$ 161,327,000	40

Note to the Editor

Information included in this release or related venture capital investment data should be cited in the following way: "The MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Financial", or "PwC/NVCA MoneyTree™ Report based on data from Thomson Financial." After the first reference, subsequent references may refer to PwC/NVCA MoneyTree Report, PwC/NVCA or MoneyTree Report. Charts and tables displaying the data are sourced to "PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Financial". After the first reference, subsequent references may refer to PwC/NVCA MoneyTree Report, PwC/NVCA, MoneyTree Report or MoneyTree.

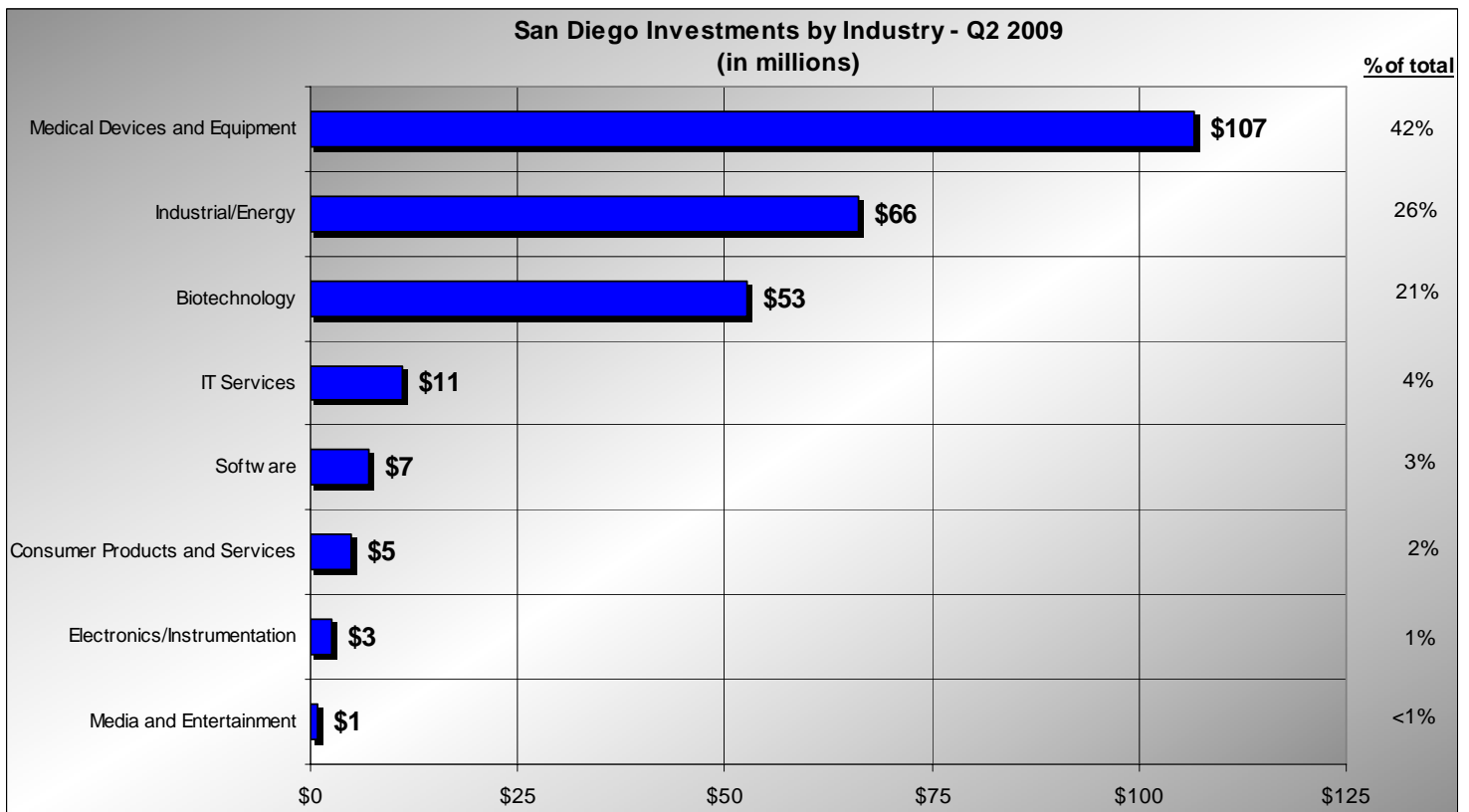
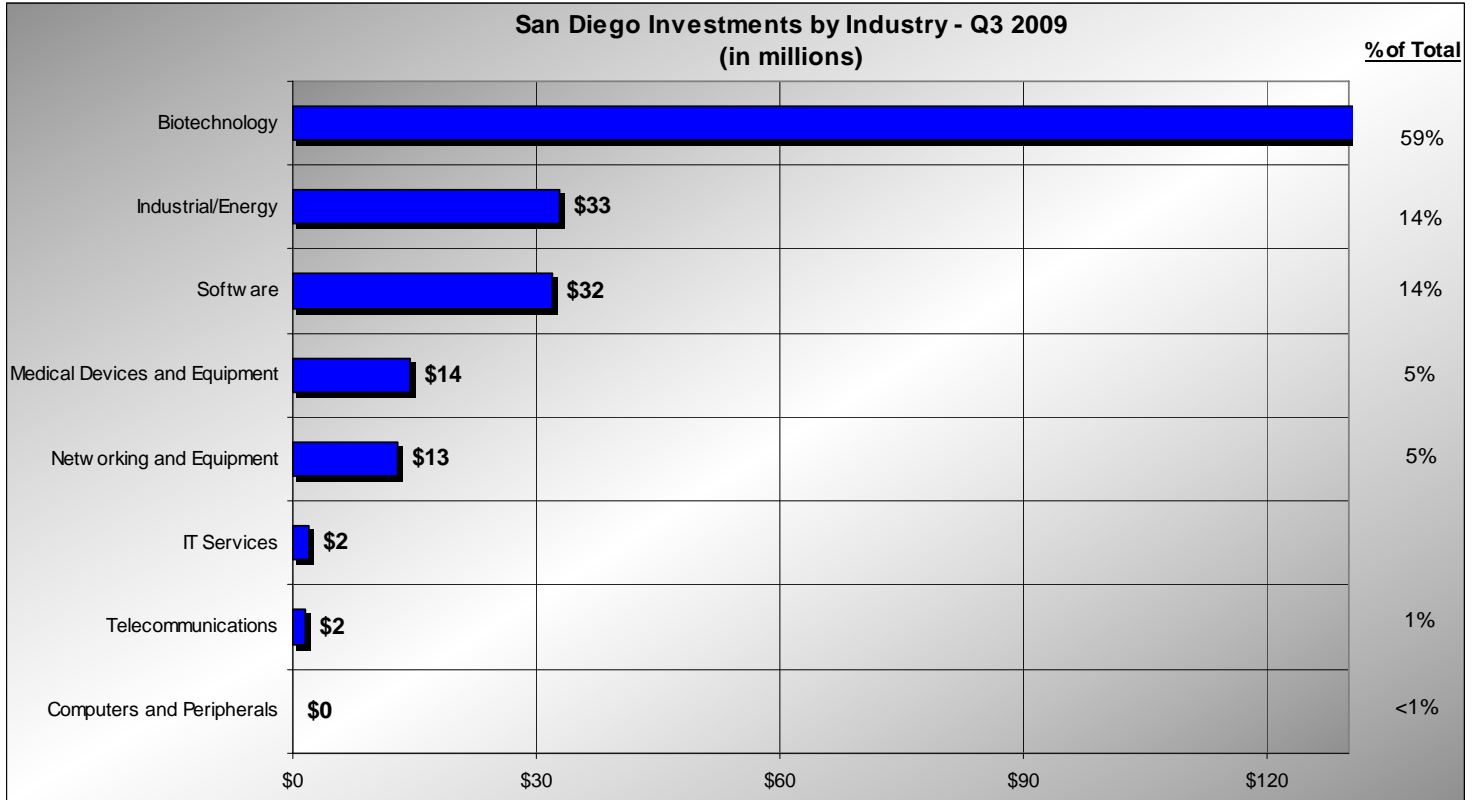
San Diego -Total Investments by Quarter
Q3 2006 – Q3 2009



San Diego – Most Active Venture Capital Firms
Q3 2009

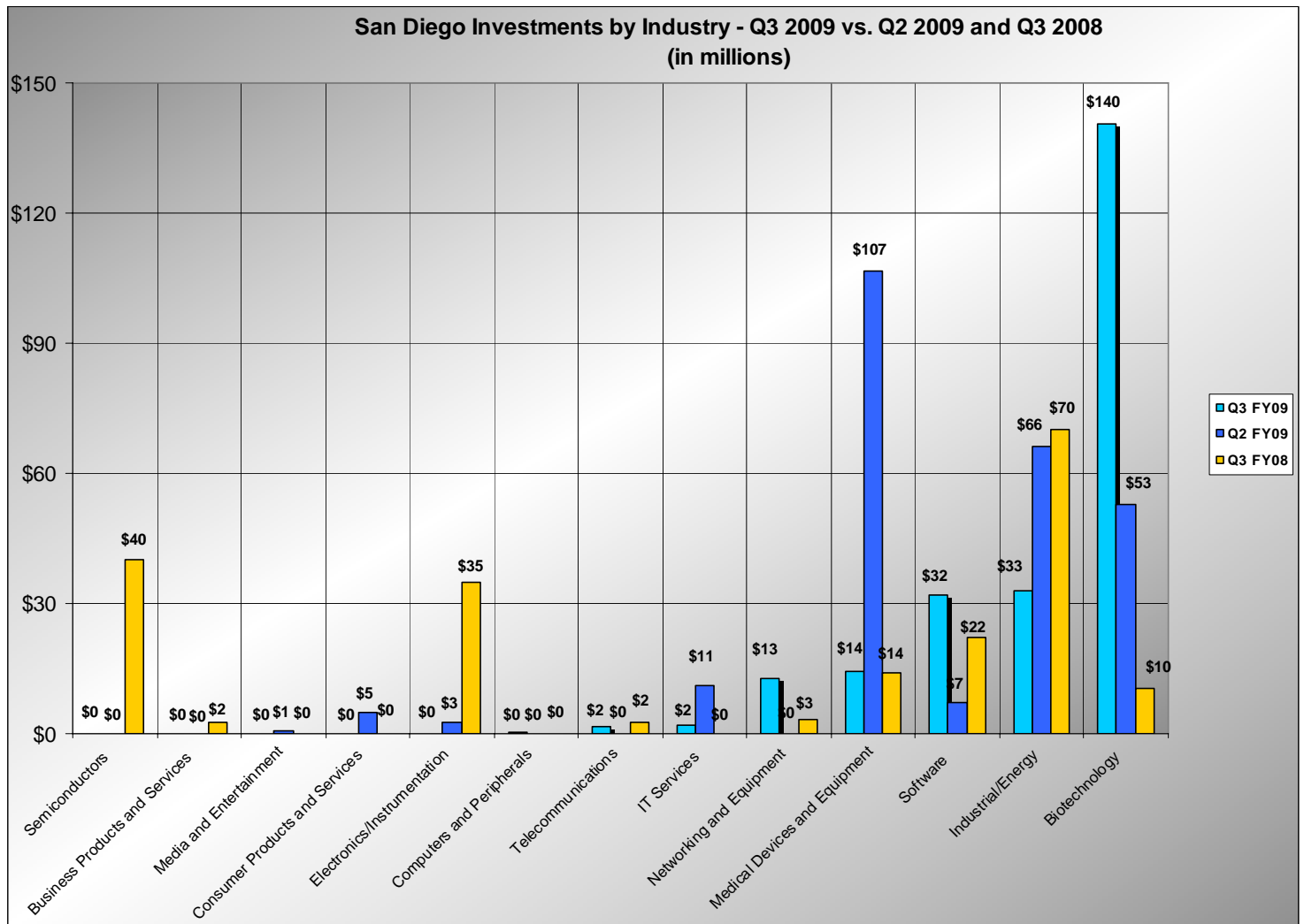
Venture Capital Firm	Location	Total Deals
Domain Associates LLC	San Diego, CA/ Princeton, NJ	6
Enterprise Partners Venture Capital	San Diego, CA	5
Thomas, Mc Nerney & Partners LLC	Minneapolis, MN	3
Scale Venture Partners	Foster City, CA	3
VC Firms with 2 deals in San Diego	Various	8
All other firms (1 deal each)	Various	58

San Diego - Total Investments By Industry
Q3 2009 versus Q2 2009

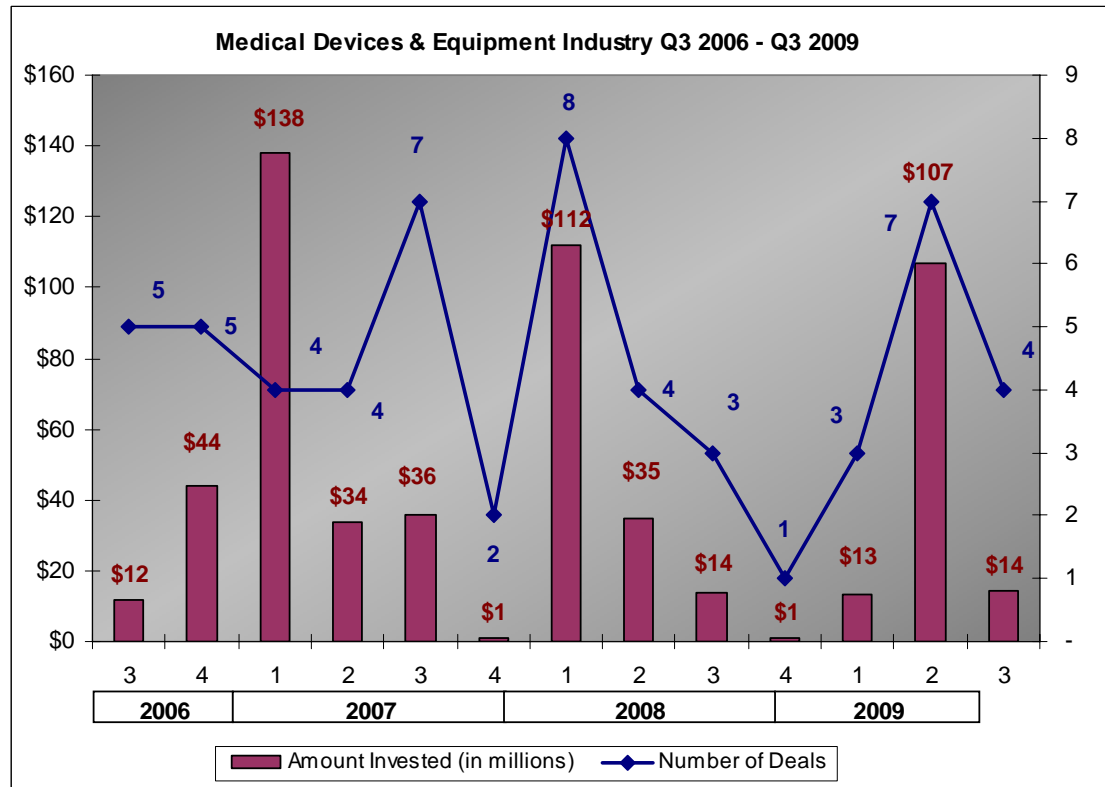
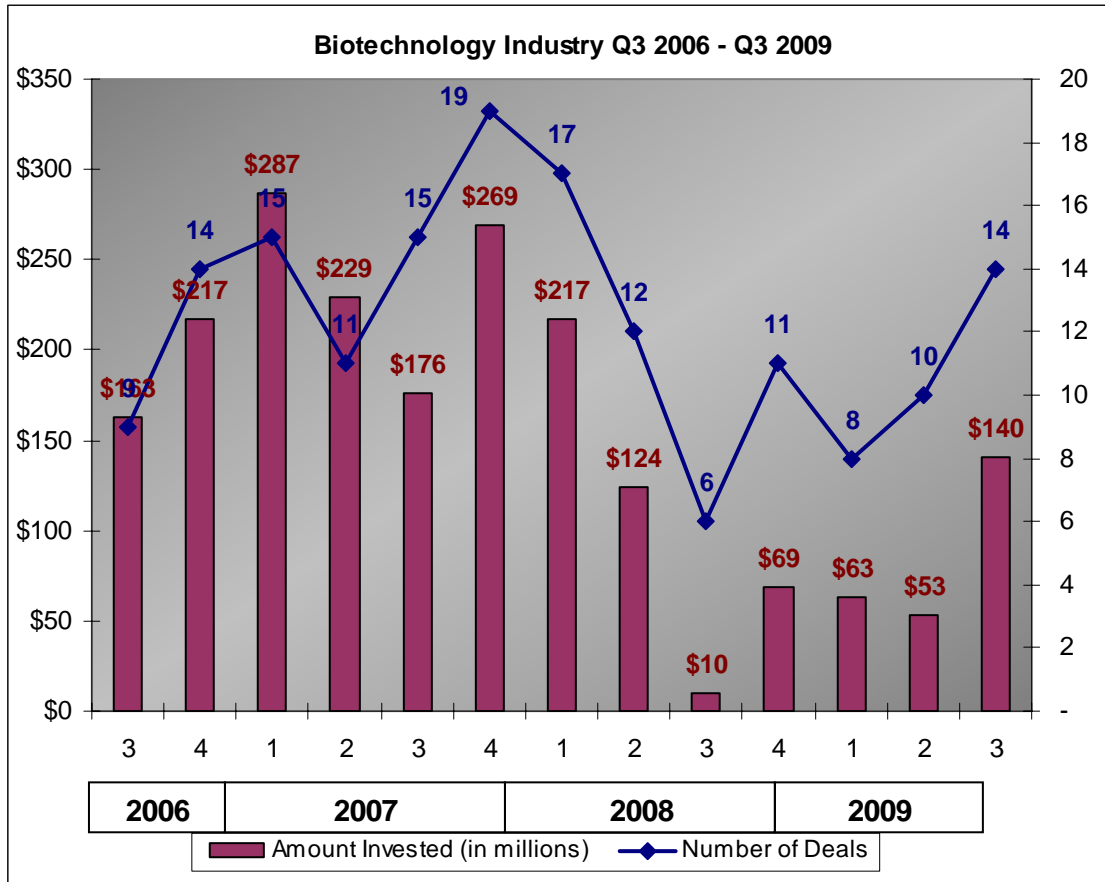


SURVEY DATA AND ANALYSIS - SAN DIEGO

San Diego - Total Investments by Industry
Q3 2009 versus Q2 2009 and Q3 2008

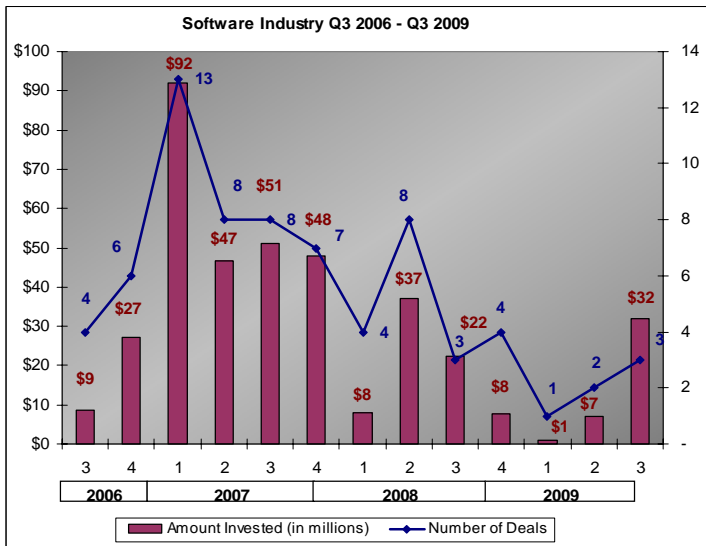
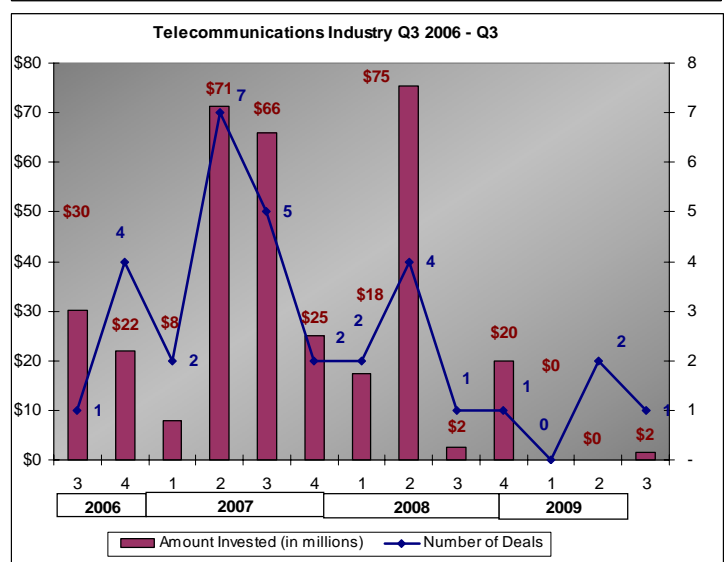
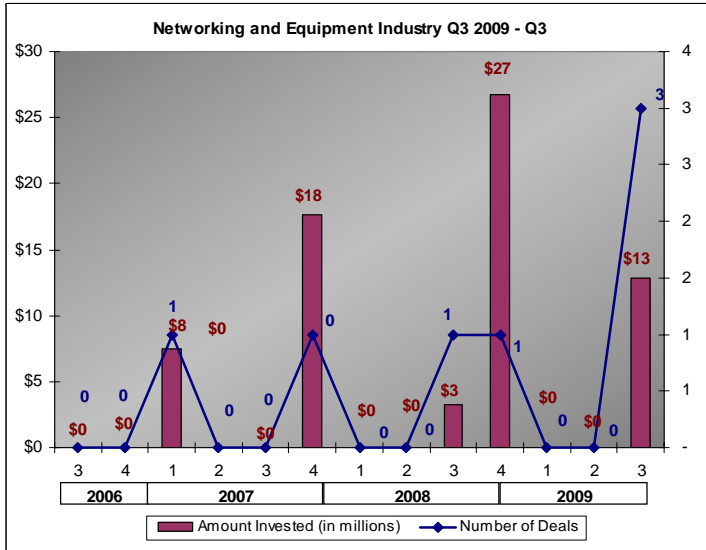
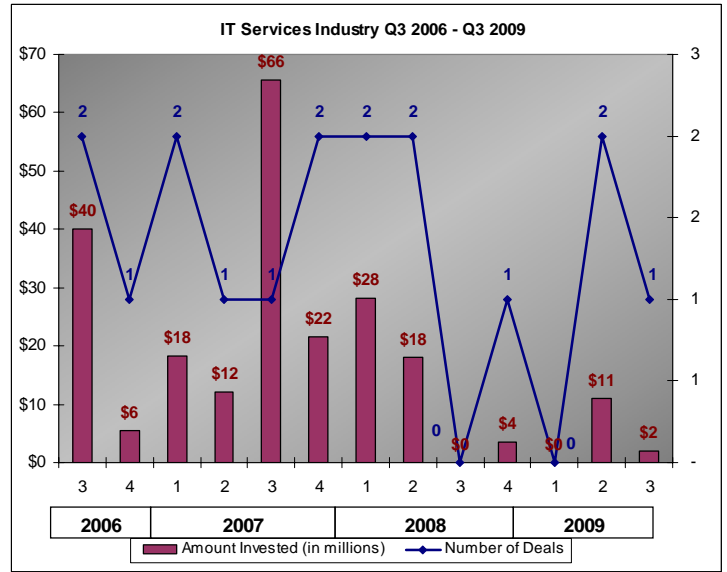
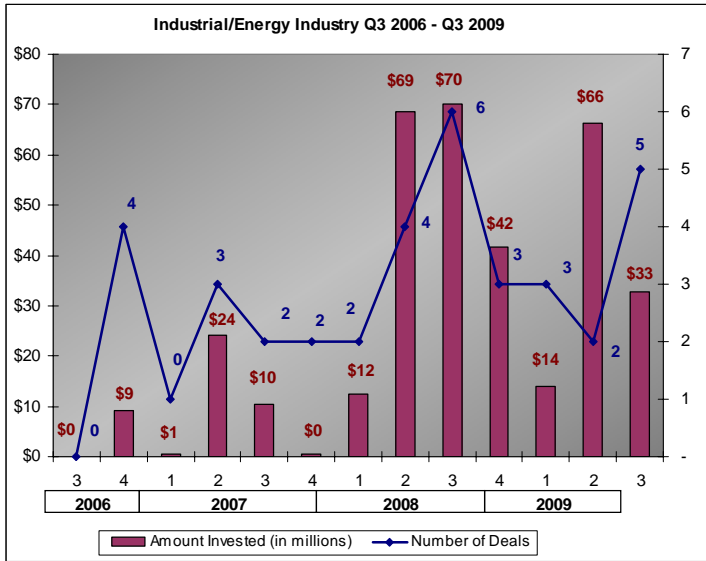


San Diego - Industry Focus on Life Sciences
Q3 2006 – Q3 2009

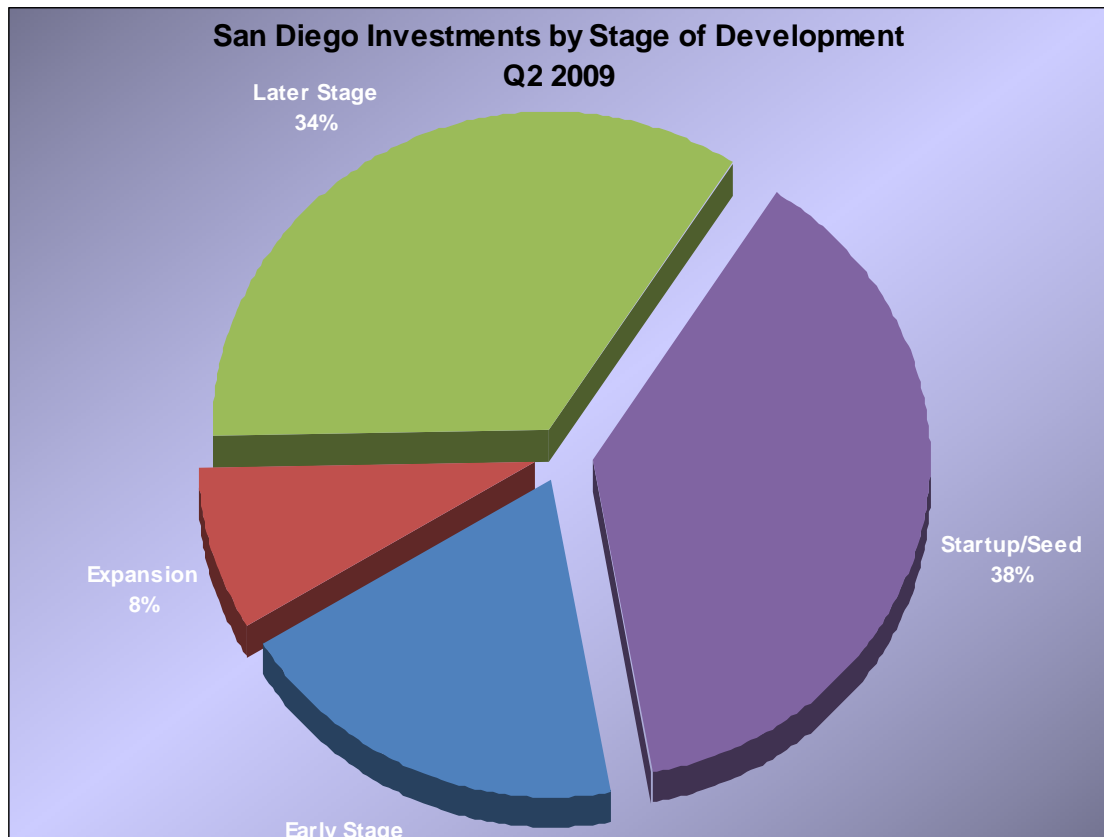
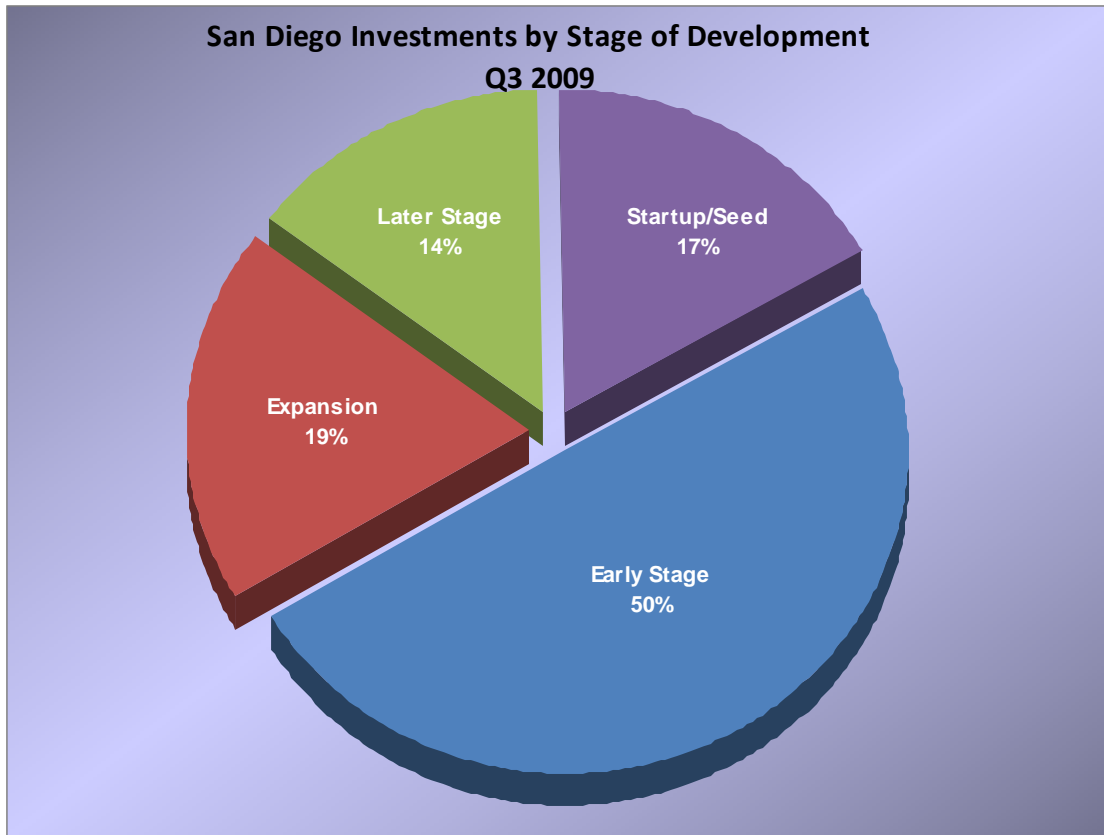


SURVEY DATA AND ANALYSIS - SAN DIEGO

**San Diego - Industry Focus on Other Industries
Q3 2006 – Q3 2009**

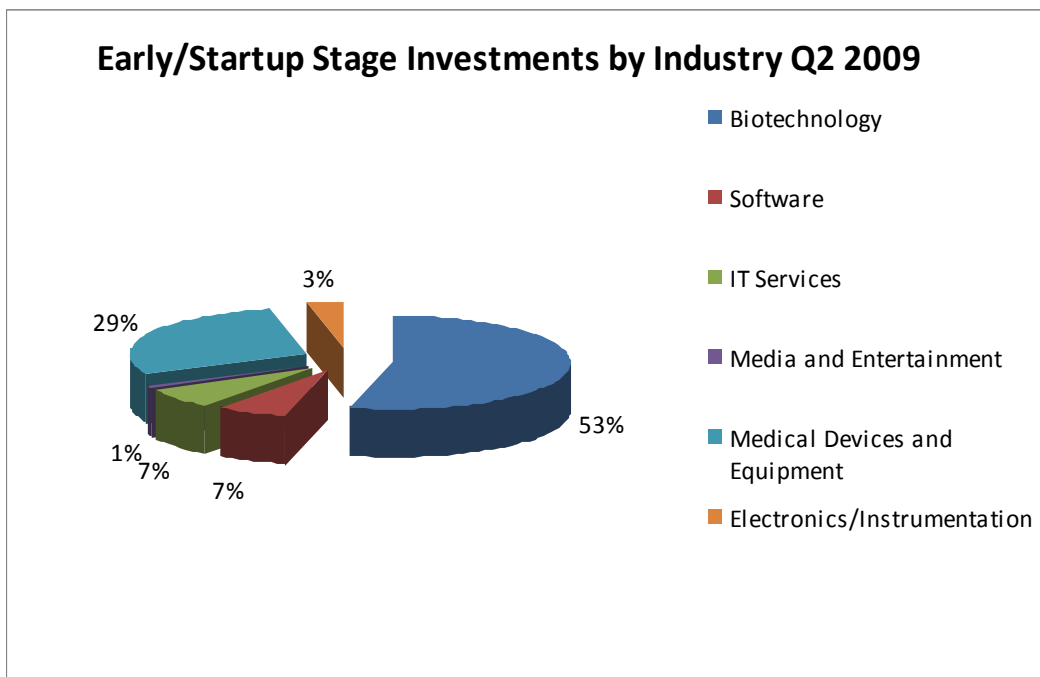
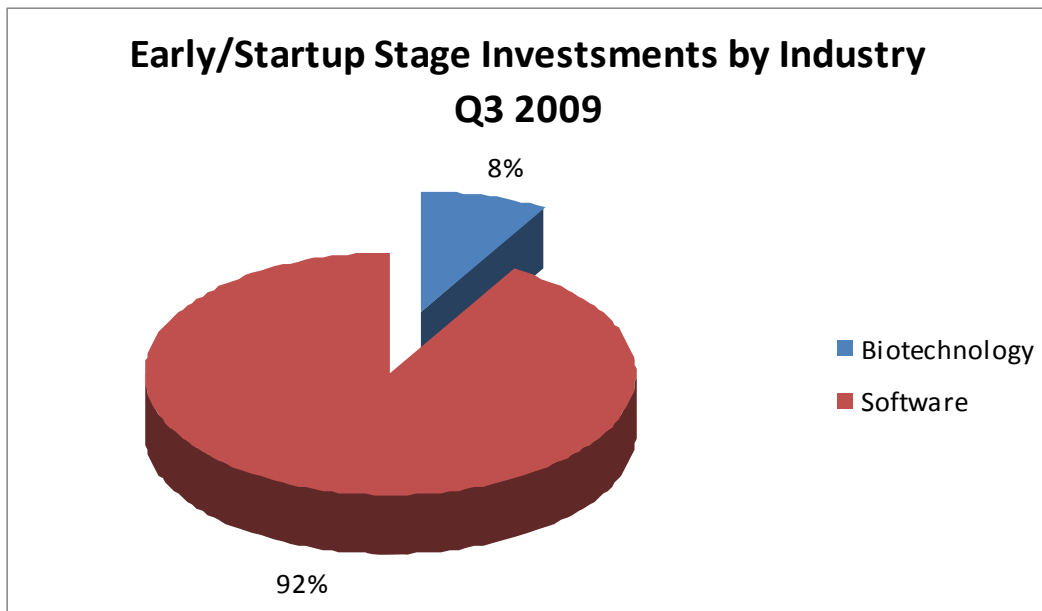


San Diego - Total Investments by Stage of Development Q3 2009 versus Q2 2009



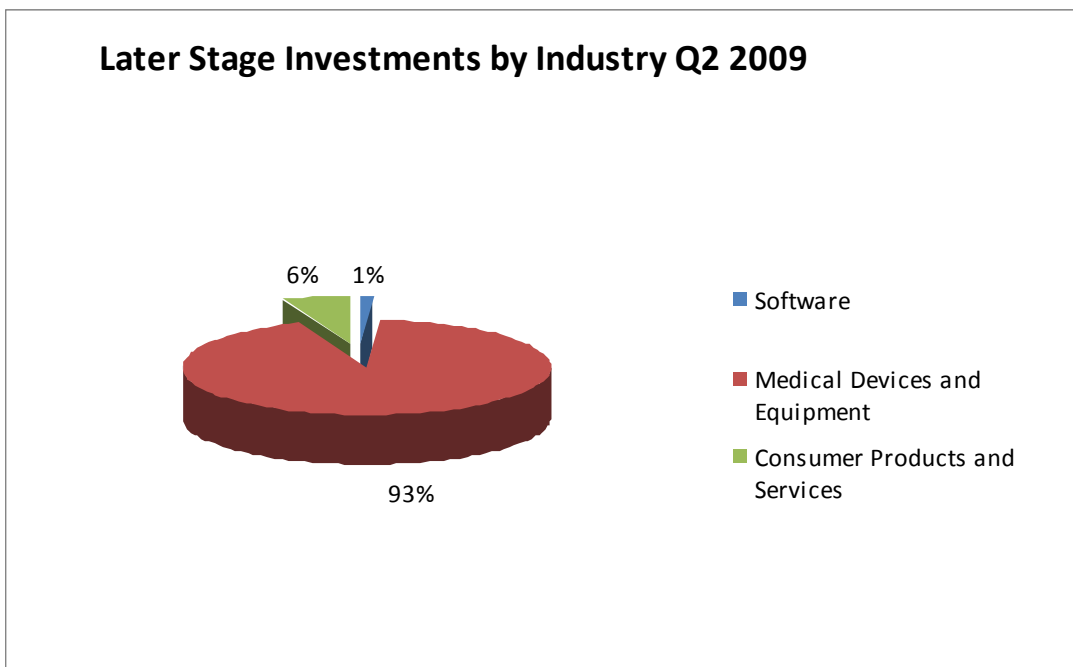
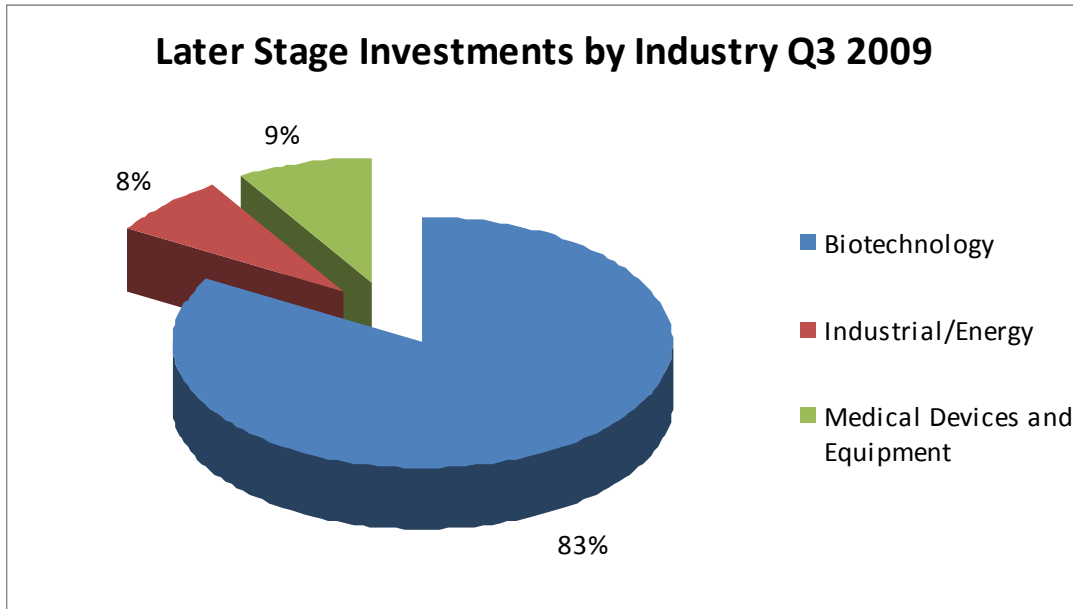
San Diego - Seed/Early Stage Investments by Industry

Q3 2009 versus Q2 2009



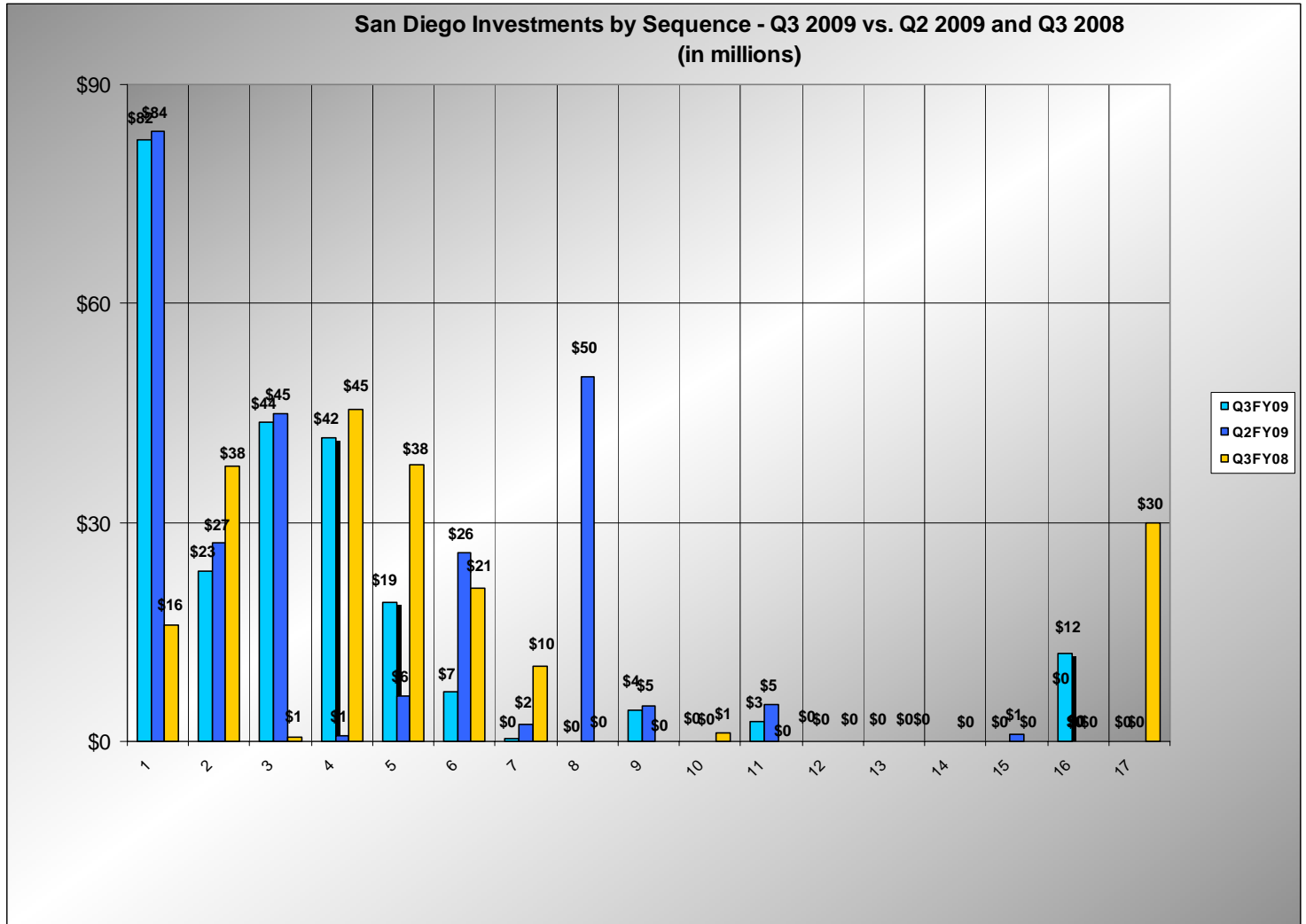
San Diego - Later Stage Investments by Industry

Q3 2009 versus Q2 2009



SURVEY DATA AND ANALYSIS - SAN DIEGO

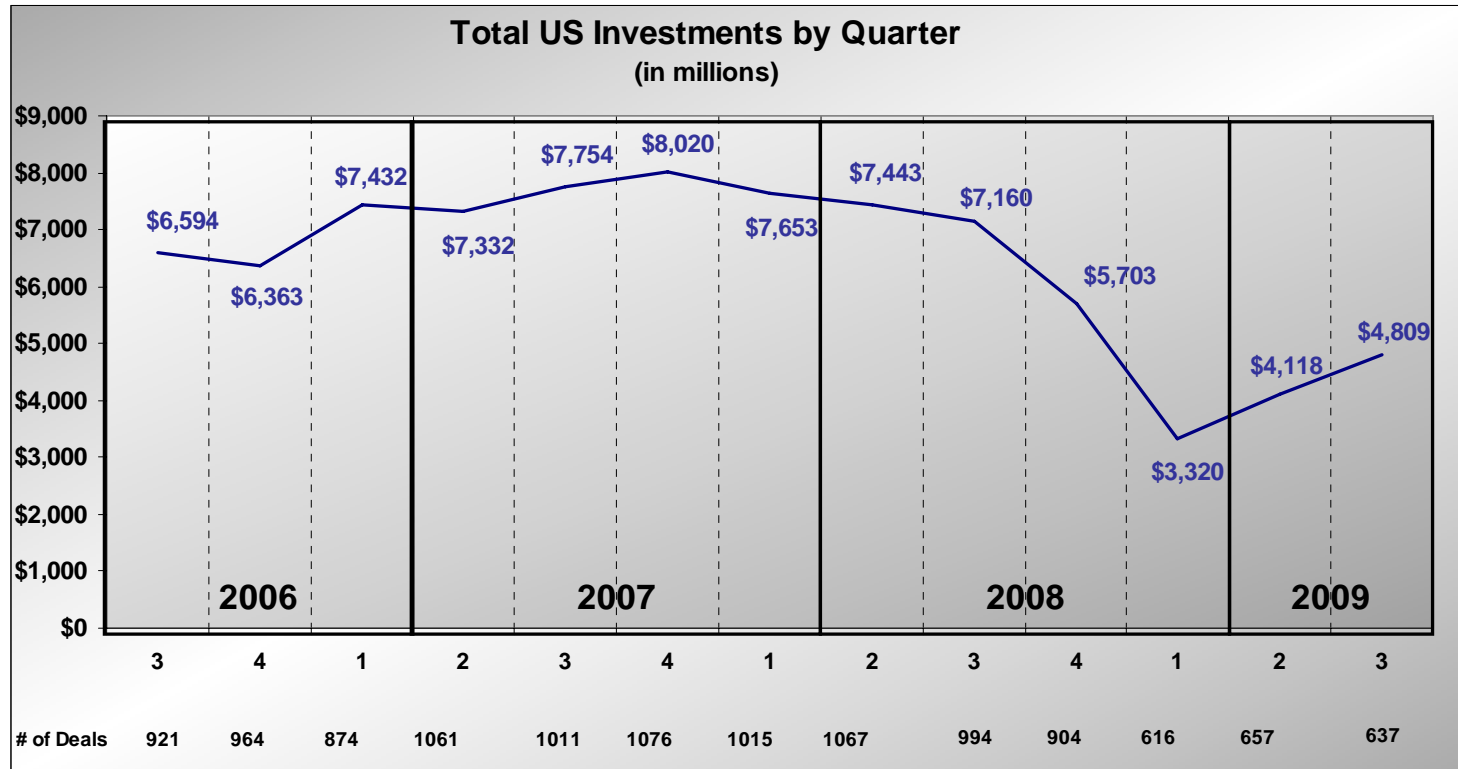
San Diego - Investment Sequence
Q3 2009 versus Q2 2009 and Q3 2008



SURVEY DATA AND ANALYSIS - NATIONAL

National Results - Total Investments

Q3 2006 – Q3 2009



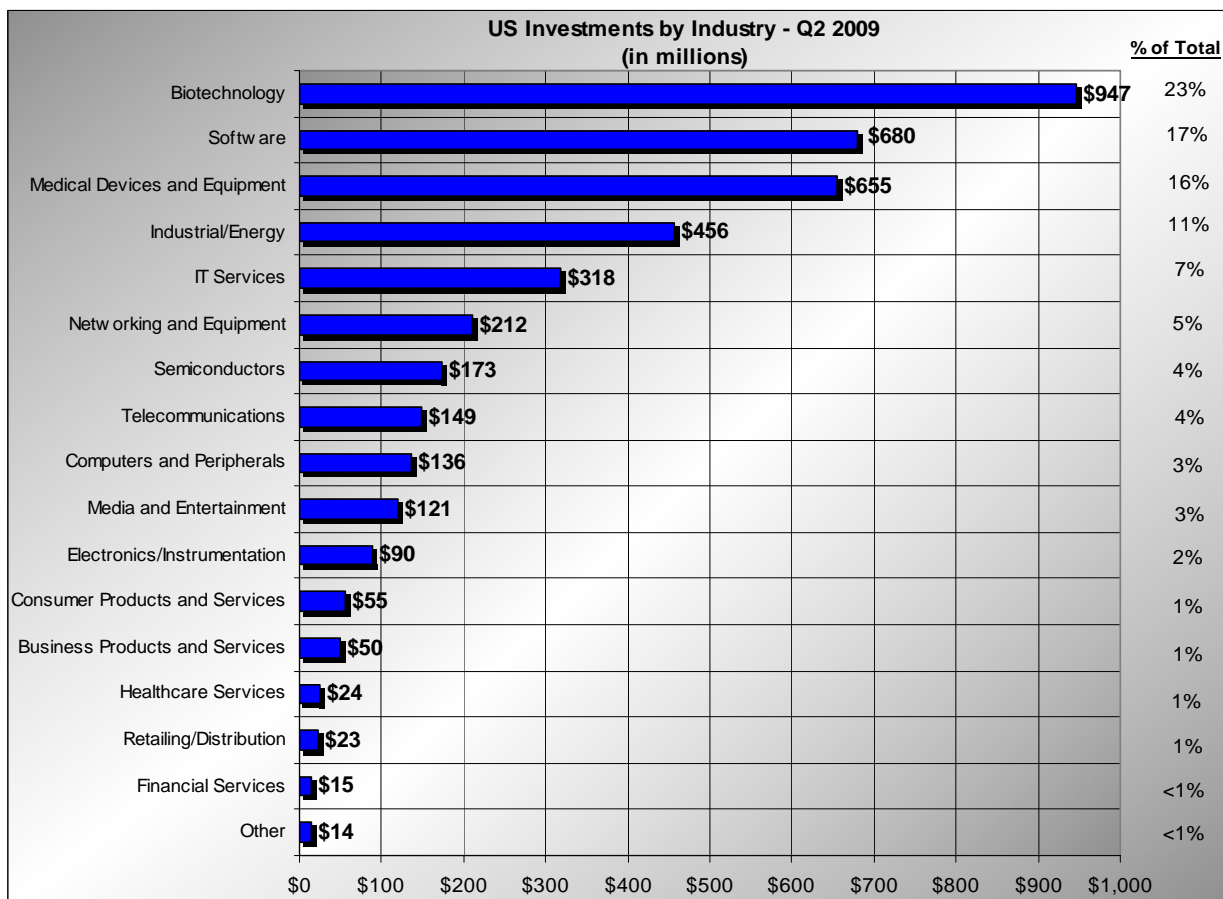
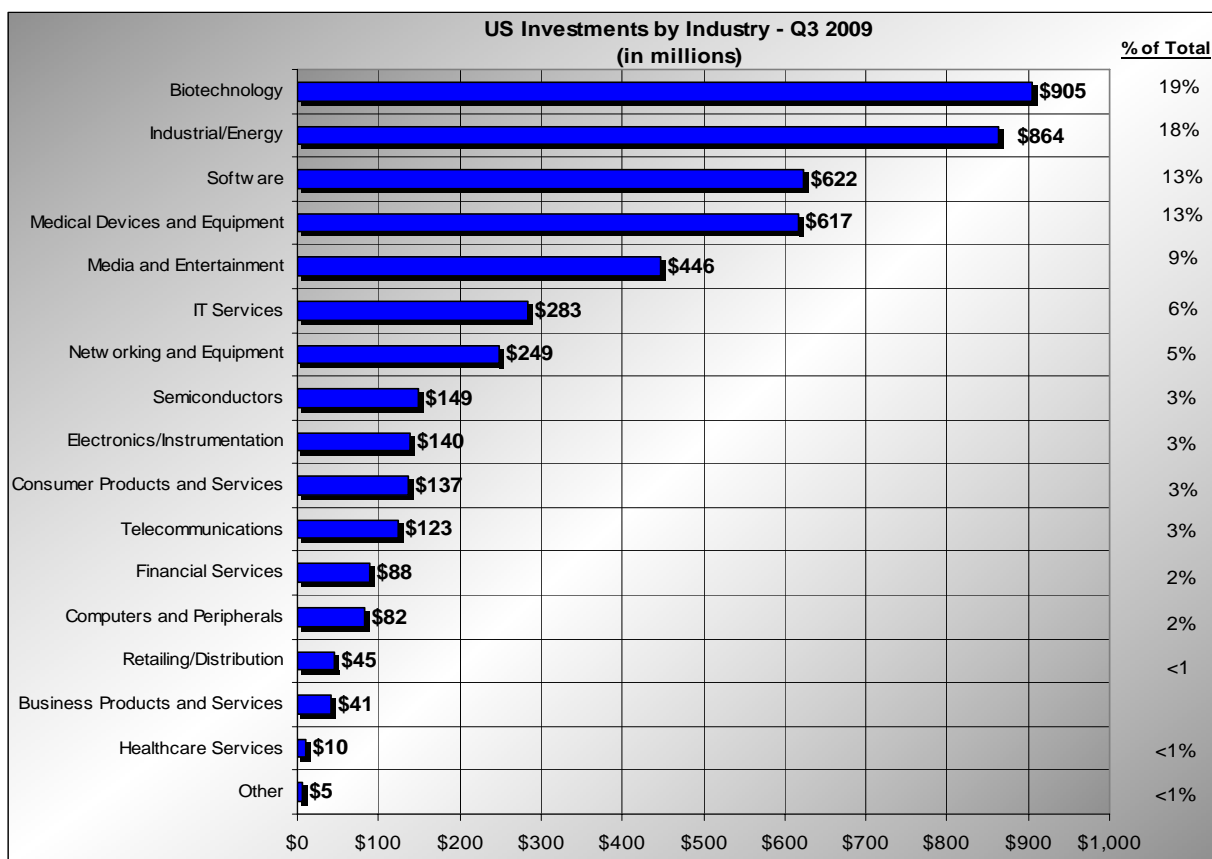
National Results – Most Active Venture Capital Firms

Q3 2009

Venture Capital Firm	Location	Total Deals
Warburg Pincus LLC	New York City, NY	26
New Enterprise Associates	Menlo Park, CA	26
U.S. Venture Partners	Menlo Park, CA	26
Draper Fisher Jurvetson	Menlo Park, CA	22
Carlyle Group, The	Washington DC	20
Business Development Bank of Canada	Montréal, Quebec	18
Kleiner Perkins Caufield & Byers	Menlo Park, CA	17
Domain Associates	San Diego, CA/ Princeton, NJ	17
Polaris Venture Partners	Waltham, MA	17
Intel Capital	Santa Clara, CA	17
Sequoia Capital	Menlo Park, CA	16

National Results - Total Investments by Industry

Q3 2009 versus Q2 2009



About the PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report

The MoneyTree™ Report measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. It is based on data provided by Thomson Financial. The survey includes the investment activity of professional venture capital firms with or without a US office, SBICs, venture arms of corporations, institutions, investment banks and similar entities whose primary activity is financial investing. Where there are other participants such as angels, corporations, and governments in a qualified and verified financing round the entire amount of the round is included. Qualifying transactions include cash investments by these entities either directly or by participation in various forms of private placement. All recipient companies are private, and may have been newly-created or spun-out of existing companies.

The survey excludes debt, buyouts, recapitalizations, secondary purchases, IPOs, investments in public companies such as PIPES (private investments in public entities), investments for which the proceeds are primarily intended for acquisition such as roll-ups, change of ownership, and other forms of private equity that do not involve cash such as services-in-kind and venture leasing.

Investee companies must be domiciled in one of the 50 US states or DC even if substantial portions of their activities are outside the United States.

Data is primarily obtained from a quarterly survey of venture capital practitioners conducted by Thomson Financial. Information is augmented by other research techniques including other public and private sources. All data is subject to verification with the venture capital firms and/or the investee companies. Only professional independent venture capital firms, institutional venture capital groups, and recognized corporate venture capital groups are included in venture capital industry rankings.

MoneyTree Report results are available online at www.pwcmoneytree.com and www.nvca.org.

The **National Venture Capital Association (NVCA)** represents approximately 480 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2007 Global Insight study, venture-backed companies accounted for 10.4 million jobs and \$2.3 trillion in revenue in the U.S. in 2006. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.

The **PricewaterhouseCoopers Private Equity & Venture Capital Practice** is part of the Global Technology Industry Group, www.pwcglobaltech.com. The group is comprised of industry professionals who deliver a broad spectrum of services to meet the needs of fast-growth technology start-ups and agile, global giants in key industry segments: networking & computers, software & Internet, semiconductors, life sciences and private equity & venture capital. PricewaterhouseCoopers is a recognized leader in each industry segment with services for technology clients in all stages of growth.

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