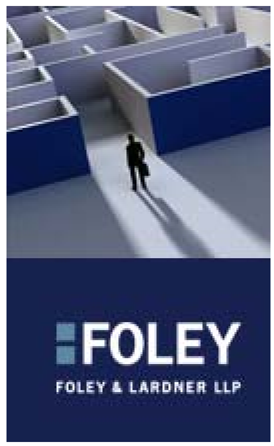
FOLEY
FOLEY & LARDNER LLP

The Business Environment Facing Emerging Companies Today



A Report Presented By:

Foley & Lardner LLP

December 13, 2007

EXECUTIVE SUMMARY

Emerging company executives, investors and advisors have expressed greater uncertainty in the current market, however they are not yet panicked or pessimistic about market conditions.

- The number of emerging company executives citing a merger or sale as their likely exit strategy has decreased consistently from 2005 (74%) to 2007 (56%). Moreover, the number of executives who said they did not know their likely exit strategy has risen steadily since 2005 to 18% of respondents to the 2007 survey.

- Furthermore, a large percentage (72%) of emerging company executives responding to the 2007 survey are at least three or more years away from a planned exit. This represents a significant increase from the already high percentage of respondents that indicated this extended timeframe in 2006 (60%).

- Since 2005, there has been a minor drop in respondents predicting slight growth in emerging company valuations and the small increase in predicting valuations will "decline somewhat." The number of respondents predicting slight growth in access to capital has also declined steadily from 2005 (67%) to 2006 (59%) to a sharp drop in 2007 (37%), and the number of respondents predicting no growth has risen steadily.

- On the positive side, a large number of investors responding to the 2006 (41%) and 2007 (40%) survey have raised capital within the past year, and even more (77% in 2006 and 81% in 2007) expect to do it again within the next two years.

- We believe these results reflect greater uncertainty in the current private equity and venture capital market compared to previous years. However, respondents are still cautiously optimistic in predictions for emerging company valuations and access to capital over the next two years and investors indicated they have raised a significant amount of capital over the past year and plan to continue to raise new funds. This demonstrates that although respondents are slightly more realistic and less bullish compared to previous years, they are not in any way panicked or pessimistic about market conditions as of yet.

Hype surrounding the credit crunch has overshadowed the reality.

- An overwhelming majority of investors believe that the credit crunch has not had an effect on the timeframe for raising their next fund (84%), their ability to fund transactions (85%), or their perception of valuation of their companies (77%).

- Furthermore, the majority of respondents do not believe the credit crunch has made it more difficult to do business (61%) and state that market conditions have not changed their M&A plans (39%) or that they are not pursuing a merger or acquisition (46%).

- We believe these results demonstrate that the credit crunch has not affected investment in emerging companies or the way emerging companies do business as much as the current hype has led us to believe. At this point, emerging companies have not seen much of an impact due to the credit crunch, and there is still a fair sense of market confidence.

EXECUTIVE SUMMARY (CONTINUED)

The IPO market continues to stall reflecting further evidence of market uncertainty.

- Consistent with the 2005 and 2006 data, only 6% of respondents cited an IPO as a likely exit strategy in the 2007 survey. We believe this is reflective of continued uncertainty and lack of belief in the IPO market as organizations explore options which provide higher valuations and more likelihood of success.

- The number of respondents predicting the IPO market will be stagnant over the next two years has remained fairly consistent in data from 2005 (80%), 2006 (65%) and 2007 (71%).

Software/IT, biotech and medical devices are seen as strong industries for emerging companies, whereas the perception of retail and manufacturing is negative.

- Consistent with 2006 data, a large percentage of investors in 2007 expected to focus most of their investment dollars in 2008 and 2009 in software/IT (65%) and medical devices (31%). Similarly, 43% of emerging company executives identified software/IT as presenting the best opportunity for success for emerging companies and 24% chose medical devices.

- While emerging company executives overwhelmingly felt biotech provided a good opportunity (47%), investors were less optimistic about investment in this area. However, the percentage of investors identifying biotech as an area of investment rose in 2007 (15%), compared to 2006 (5%).

- The business and investment community also agreed that manufacturing and retail do not present a good opportunity for emerging companies over the next two years. 58% of executives identified manufacturing as providing the worst outlook and 48% chose retail. Furthermore, only 8% of investors indicated they would invest in manufacturing and only 4% chose retail. This result indicates a looming recession in the manufacturing and retail sectors.

VERBATIMS

How do organizations increase value?

- *Stay focused on doing what they do best and not trying to expand service offerings.*
- *Internally increase efficiencies and increase productivity.*
- *Development of intellectual property and sustainable, profitable revenue growth.*
- *Use market development to increase demonstrated market potential and drive up sales. Pursue new applications and new product platforms to expand markets.*
- *Provide the infrastructure and technology to increase people's ability to create value for customers.*
- *Strong network / relationships, operating experience and a focus on markets and exit planning.*

How do organizations drive innovation in their business?

- *[Consider] everyday as a fresh start to look at what they have done, what they are doing and always look to see how they could do it better.*
- *Close review of customer needs. Innovation must be matched to customer requirements, not innovation for innovation's sake.*
- *Get people of different backgrounds and experiences.*
- *Think about it like an operating company not an investment firm.*
- *[Focus] on meeting unmet clinical needs; innovation follows the need.*
- *Utilize all of the latest, yet proven technological tools during the development of an application. [Organizations should] try to maintain a "best in breed" approach, where they can focus on their core strengths and outsource other pieces of the solution to companies that specialize in their fields.*

Has the current credit crunch impacted your perception of valuation of your companies?

- *Yes. We are more sensitive to valuations as we feel tighter credit will limit the universe of buyers for our companies, thus decreasing exit multiples.*
- *Yes. [Due to] general concerns over the future health of the market and economy. If there is a major downtown and recession, spending will drop across the board.*
- *No. We don't use debt in our companies and our portfolio companies' product sales do not seem to have been curtailed by the credit crunch.*
- *No. Our investments are based upon the potential of their research and development which appears strong enough to be adequately financed despite the credit environment.*

VERBATIMS (CONTINUED)

Describe the use and function of alternative (non-VC or non-strategic VC investing) sources of equity that are currently active in the market today.

- *Strongly needed, but not very widely known.*
- *[Alternative sources are] more creative sources of smaller equity stakes with more than just a financial interest in portfolio companies, who are also excited by the mission, vision and legacy opportunities.*
- *Be very cautious. They have very different motives for investing.*
- *Not committed for the long run, and unable to stomach the ups and downs of the business.*
- *A growing source but still hard to reach effectively (although less hard now than five years ago).*
- *Very difficult to access; lack understanding of foreign markets.*
- *Angel investing is increasing.*
- *Still not a mature / professional market.*
- *Extremely bullish and poised for explosive growth.*

What are the short- and long-term implications of the current VC funding gap?

- *The pipeline of companies leading from startup to maturity may shrink, resulting in fewer M&A and IPO events in the future.*
- *Short-term implications are simple: since it's harder to raise money if you're in that gap, those companies who run out of time before they raise the bucks will either die or get creative. Long-term, the system will correct itself. Funds are already springing up to fill the gap.*
- *It is preventing innovation and good ideas are being lost to loss of funding. Large companies and VCs do not do due diligence anymore. They are both waiting for market validation, which most times requires some investment and risk taking by both parties to create.*
- *More deals are going to strategic investors rather than financial investors, the latter now being outbid more often as their access to credit to gear the deals has diminished. This trend is likely to continue for some time.*
- *There is no funding gap. A deal that doesn't get funded needs to re-think and re-plan.*
- *Truly exceptional emerging technologies and businesses will continue to find the capital they need. Strong management demonstrated by track record will continue to be the most important feature for successful funding.*

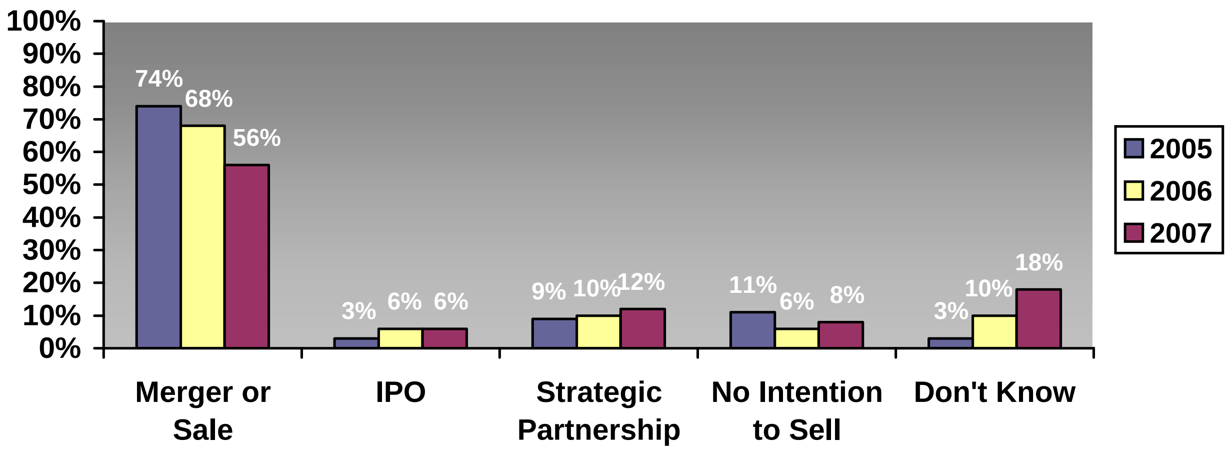
ANALYSIS OF EMERGING COMPANY SURVEY

Perspective From Executives of Emerging Companies

The following questions reflect input received from respondents who currently serve as executives of emerging companies.

What is your likely exit strategy?

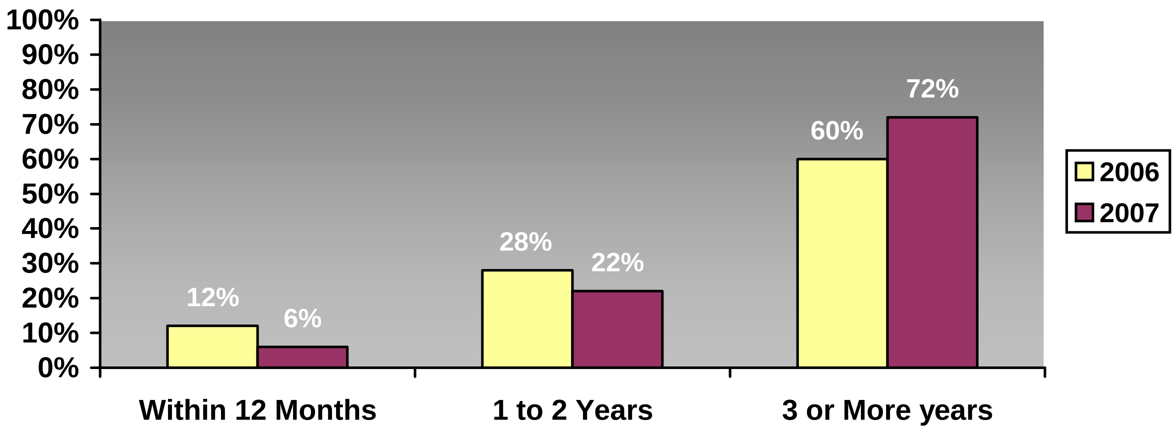
(Note that this question was only addressed to those respondents who identified themselves as a "founder or executive of an emerging company.")



- The number of emerging company executives citing a merger or sale as their likely exit strategy has decreased consistently from 2005 (74%) to 2007 (56%).
- Furthermore, the number of respondents who said they did not know what their likely exit strategy would be has risen steadily since 2005. A significant number of respondents to this year's survey (18%) did not know their exit strategy.
- We believe these results reflect an uncertainty in the current private equity and venture capital market. Compared to previous years, there is more uncertainty than ever as fewer executives expressed a desire for a merger or sale and there was a significant increase in executives who did not know their exit strategy.
- Consistent with the 2005 and 2006 data, very few respondents in 2007 cited an IPO as a likely exit strategy. We believe this is reflective of continued uncertainty and lack of belief in the IPO market as organizations explore options which provide higher valuations and more likelihood of success.

What is your likely timeframe for an exit?

(Note that this question was only addressed to those respondents who identified themselves as a "founder or executive of an emerging company.")

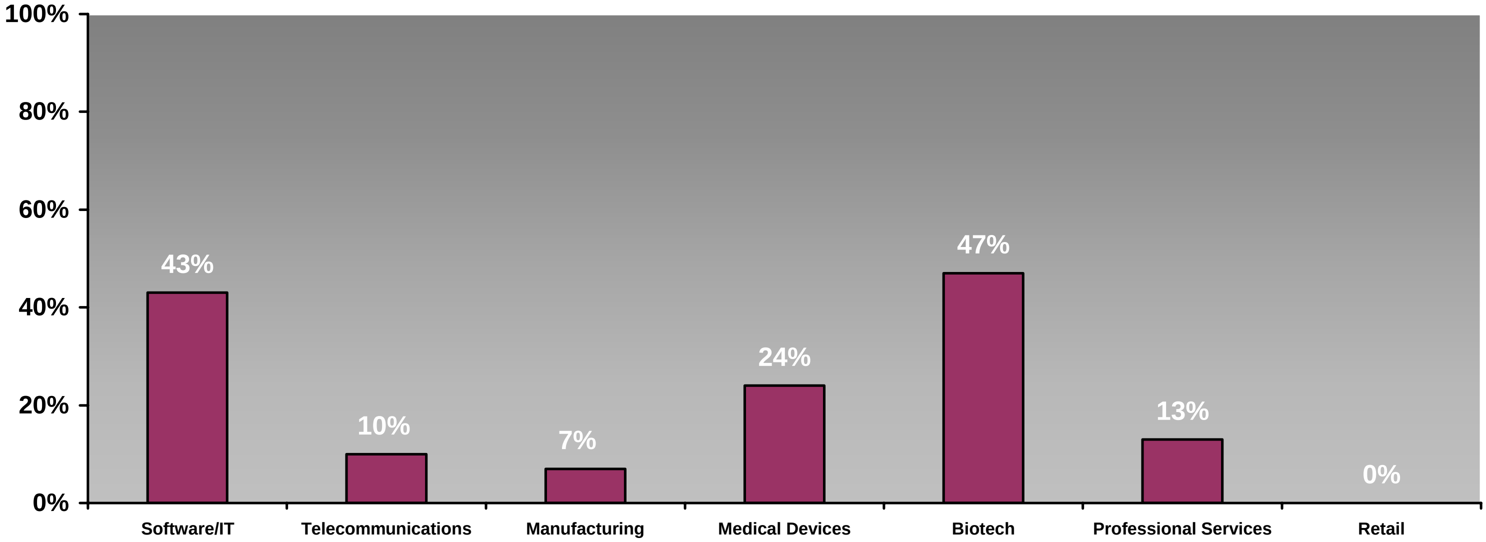


- A large percentage (72%) of emerging company executives responding to our 2007 survey are at least three or more years away from a planned exit. This represents a significant increase from the already high percentage of respondents that indicated this extended timeframe in 2006 (60%).

- In connection with the consistent decrease in respondents citing a merger or sale as a likely exit strategy and the increase in respondents who do not know their exit strategy, this result provides further reinforcement of the general uncertainty that exists throughout the market today.

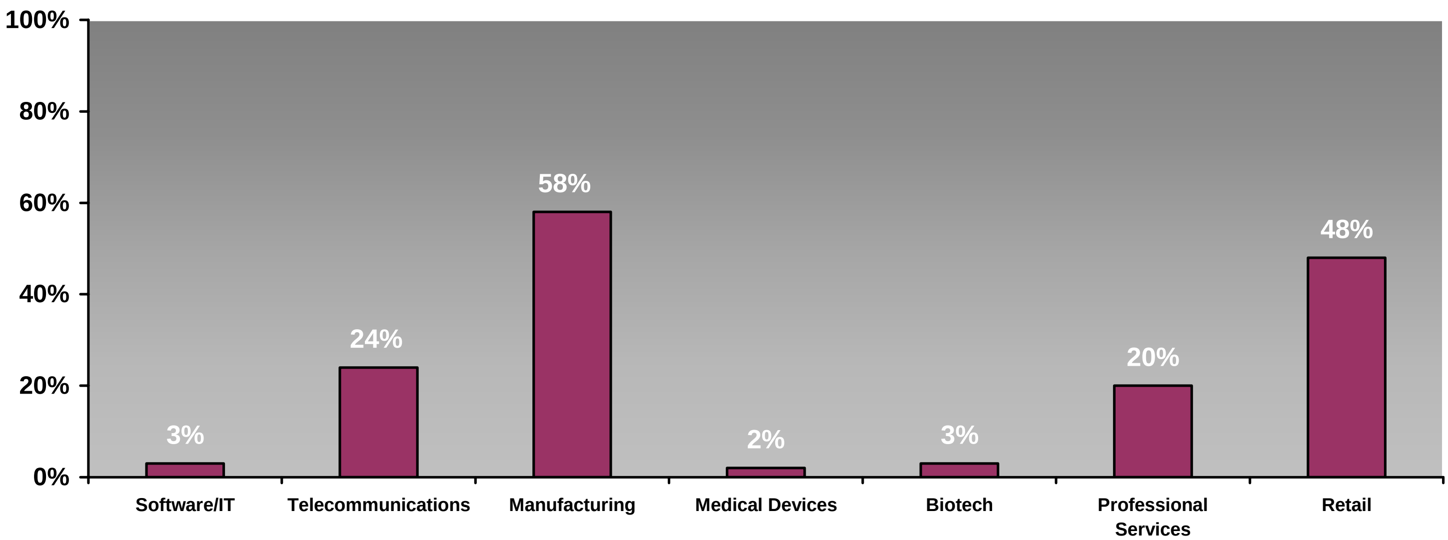
Which industries do you believe present the *best opportunity for success* for emerging companies over the next two years?

(Note that this question was only addressed to those respondents who identified themselves as a "founder or executive of an emerging company.")



Which industries do you believe present the *worst outlook* for emerging companies over the next two years?

(Note that this question was only addressed to those respondents who identified themselves as a "founder or executive of an emerging company.")



- Emerging company executives identified the software/IT, biopharmaceutical and biotech, and medical devices industries as offering the best opportunity for success for emerging companies over the next two years. Respondents identified the manufacturing and retail industries as offering the worst outlook.

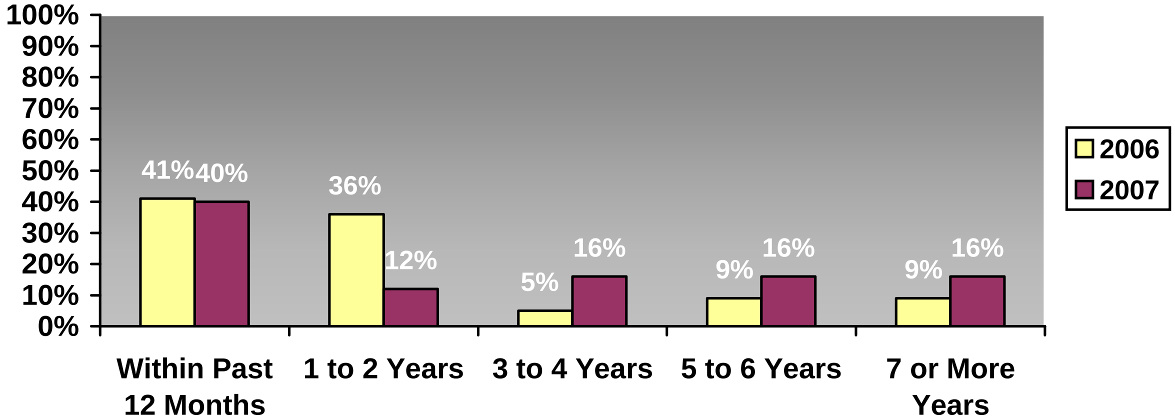
- Although interesting, this finding could be skewed by the respondent pool. For instance, if a similar question was asked only to emerging company executives on the West Coast, retail would likely be a more visible sector.

Perspective From Investors in Emerging Companies

The following questions reflect input received from respondents who actively invest in emerging companies.

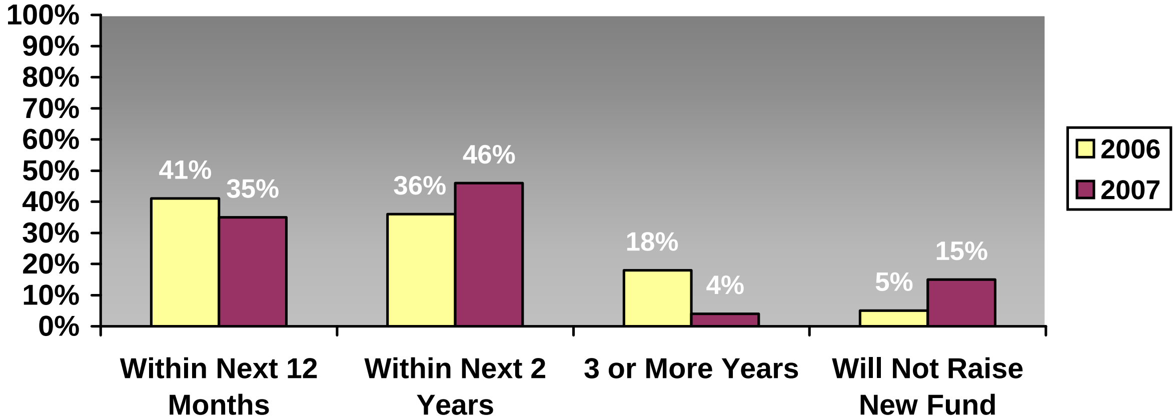
When was the last time you raised capital as a new fund?

(Note that this question was only addressed to those respondents who identified themselves as an "investor.")



When do you expect to raise your next fund?

(Note that this question was only addressed to those respondents who identified themselves as an "investor.")



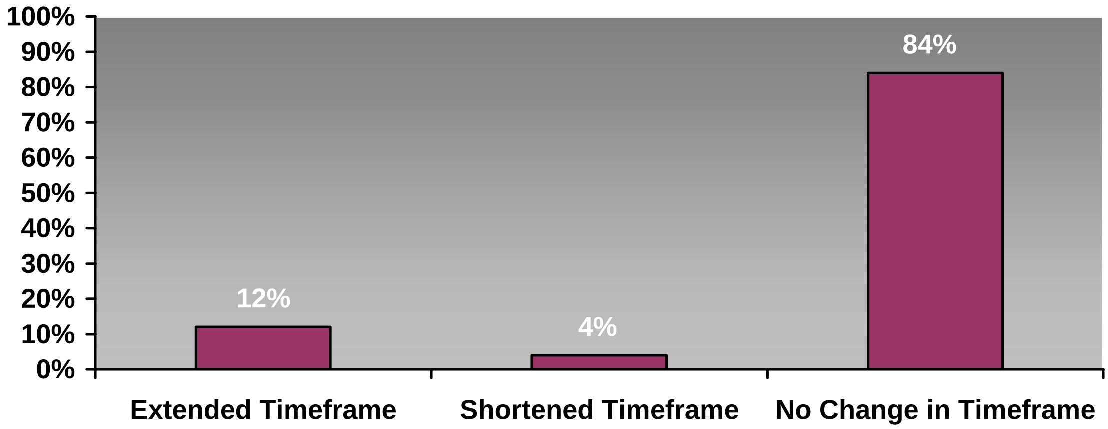
- A large number of investors responding to the 2006 (41%) and 2007 (40%) survey have raised capital within the past year, and even more (77% in 2006 and 81% in 2007) expect to do it again within the next two years.

- While emerging company executives indicated a longer timeframe to sell and are less optimistic and clear about their liquidity strategy, investors have raised a significant amount of capital over the past year and plan to continue to raise new funds. Similar to 2006, investors are optimistic, but owners are cautious.

- It is worth noting that, compared to 2006 data, more investors have pushed out fund raising from within a year to within two years. Furthermore, the number of investors indicating that they will not raise a new fund has increased from 2006 (5%) to 2007 (15%).

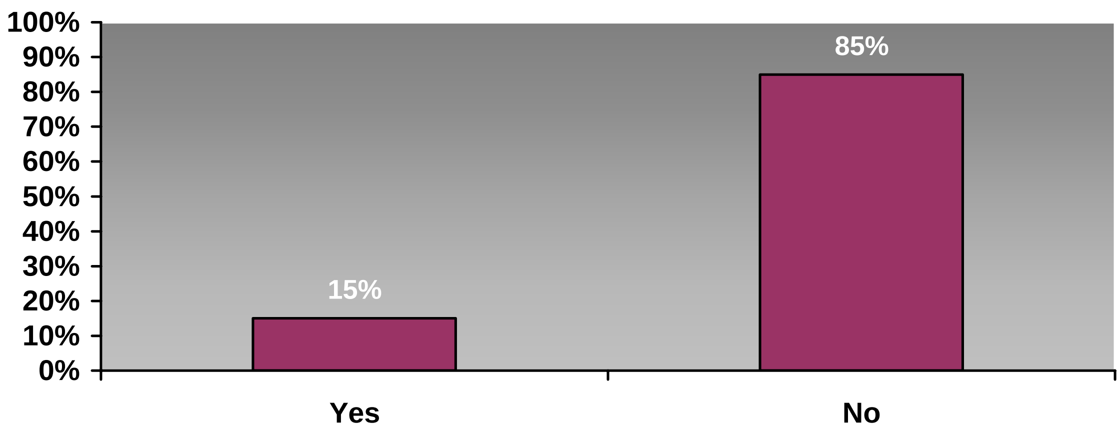
Has the credit crunch impacted the timeframe for raising your next fund?

(Note that this question was only addressed to those respondents who identified themselves as an "investor.")



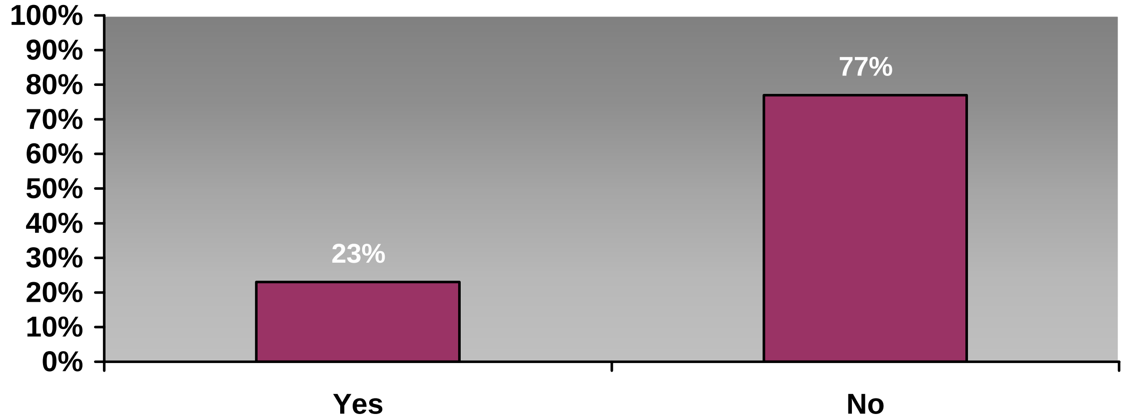
Has the credit crunch impacted your ability to fund transactions?

(Note that this question was only addressed to those respondents who identified themselves as an "investor.")



Has the credit crunch impacted your perception of valuation of your companies?

(Note that this question was only addressed to those respondents who identified themselves as an "investor.")



- An overwhelming majority of investors believe that the credit crunch has not had an effect on the timeframe for raising their next fund (84%), their ability to fund transactions (85%), or their perception of valuation of their companies (77%).

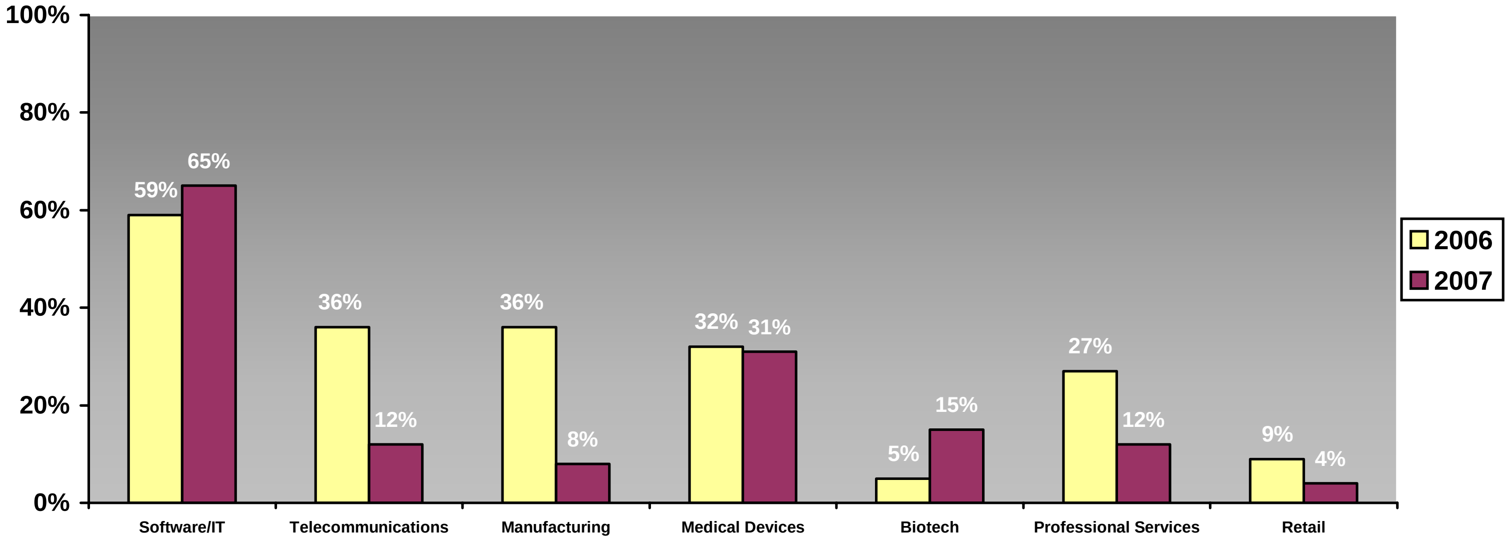
- However, it is interesting to note that 23% of investors did feel the credit crunch affected their perception of valuation of their companies.

- Overall, most investors believe that the credit crunch has not impacted their ability to raise funds or fund transactions. However, some believe there is a perception that it has affected valuation of their companies, as opposed to a reality.

- We believe this is evidence that the hype surrounding the credit crunch has overshadowed the reality. Therefore, at this time, the credit crunch may not be affecting investment in emerging companies as much as we have been led to believe.

In which industries do you expect to focus most of your investment dollars in 2008 and 2009?

(Note that this question was only addressed to those respondents who identified themselves as an "investor.")



- Similar to emerging company executives, investors identified software/IT (65%) and medical devices (31%) as major areas for investment in 2008 and 2009.
  - We find it interesting that in 2006 and 2007 there was still a large amount of interest in investing in software/IT, given the perception that investment in this area has peaked.

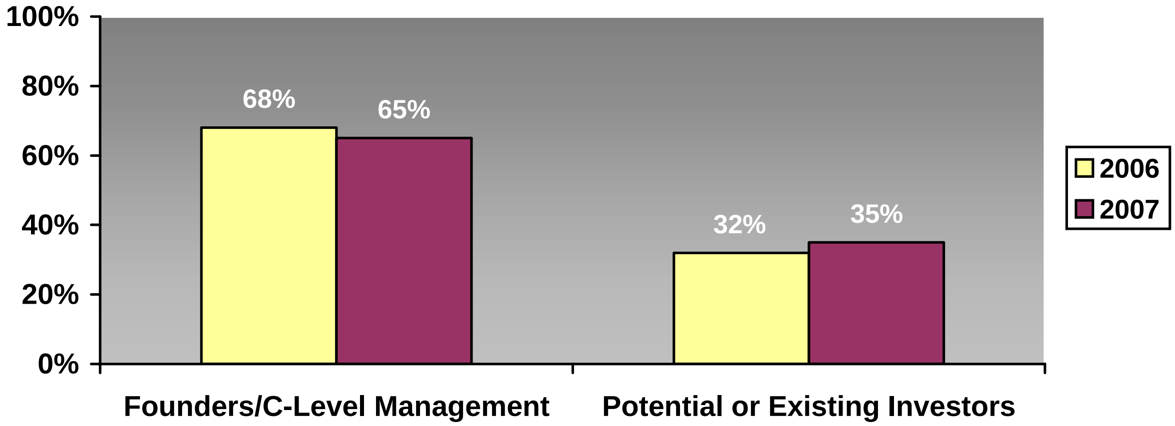
- Also consistent with executives, investors did not plan to invest in the telecommunications, retail and manufacturing sectors in the coming years. The percentages in telecom and manufacturing were down significantly from 2006 data.
  - The decline in planned investment and the poor outlook among executives in telecommunications may be due to over-investment from previous years. The low numbers for manufacturing and retail may indicate a looming recession in these sectors.

- Although there was significant overlap between the business and investment communities in terms of industries that present the best and worst opportunities, there was a bit of disconnect in the area of biotech. While emerging company executives overwhelmingly felt that biotech provided a good opportunity for emerging companies over the next two years, investors were less optimistic. However, it is worth noting that there has been an increase in planned investment in biotech from 2006 (5%) to 2007 (15%).

Perspective From All Respondents

The following questions reflect input received from all 215 respondents. The demographic make-up of respondents includes 47% outside consultants/advisors, 40% emerging company executives and 12% investors.

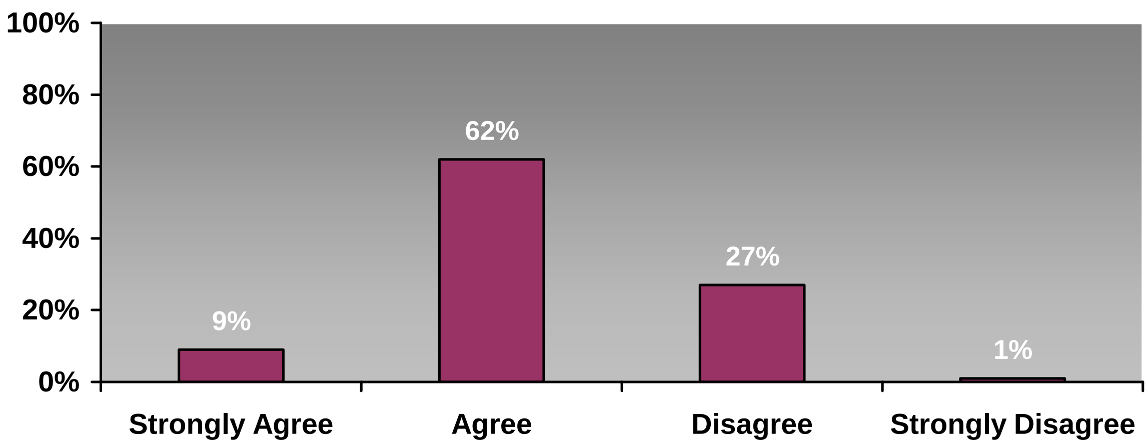
Who do you believe typically controls the decision to raise capital and the choice of investor?



- Respondents to the 2006 and 2007 survey overwhelmingly felt that executives of organizations who raise capital control key investment decisions.

- These results remain fairly consistent when segmented by respondent groups. In 2007, 68% of consultants/advisors, 64% of emerging company executives and 58% of investors felt that founders/C-level management control investment decisions.

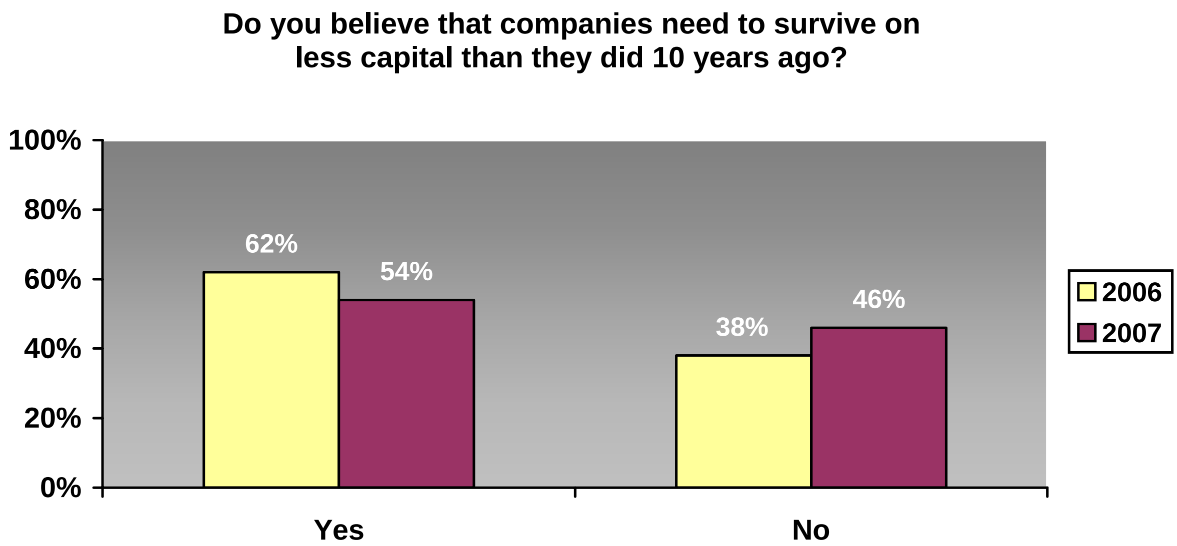
To what extent do you agree that stock market gyrations directly impact the venture world and overall availability of capital?

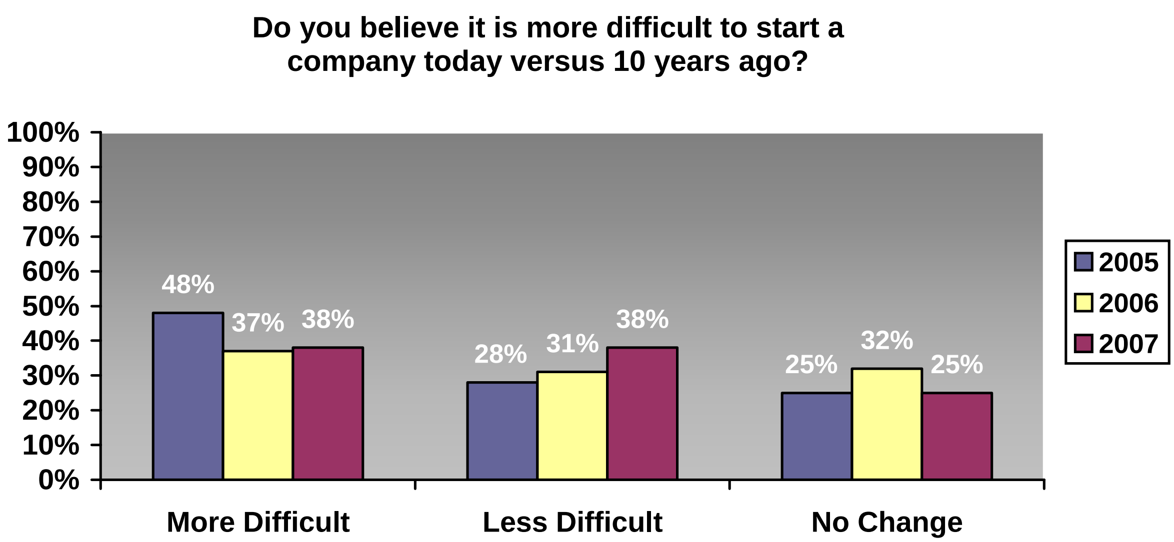


- The majority of respondents to the 2007 survey (71%) agreed that stock market gyrations directly impact the venture world and the overall availability of capital.

- Results are fairly consistent across respondent groups, but executives are a bit less likely to strongly agree or agree with this statement (62%), compared to advisors (79%) and investors (77%). Thus, there is a bit of a disconnect between investors and executives as to the impact of stock market gyrations.

- It is interesting that 85% of investors feel the credit crunch has not impacted their ability to fund transactions, but 77% agree that stock market gyrations have an impact on the venture world and overall availability of capital.



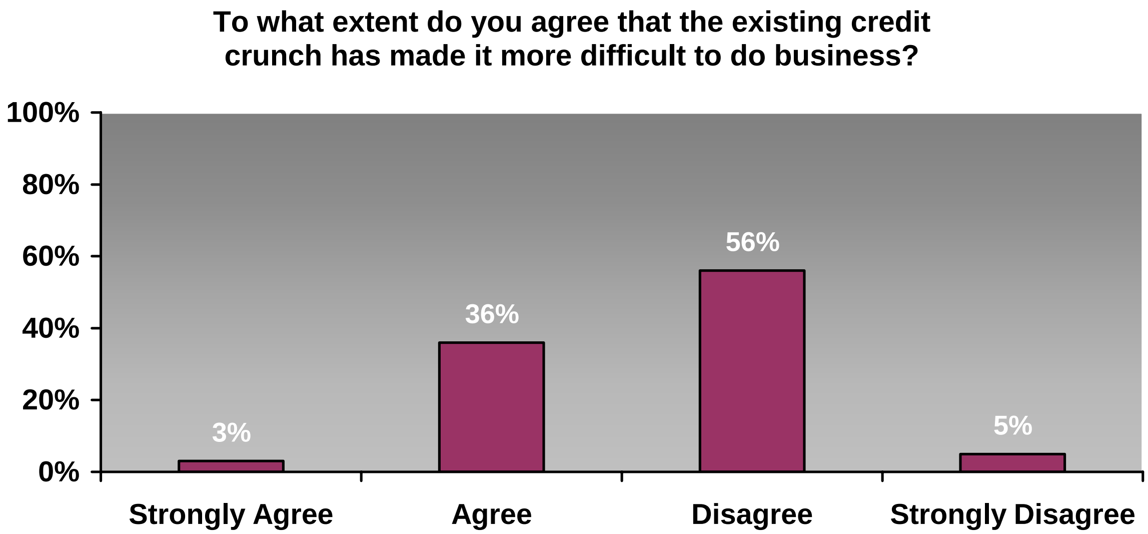


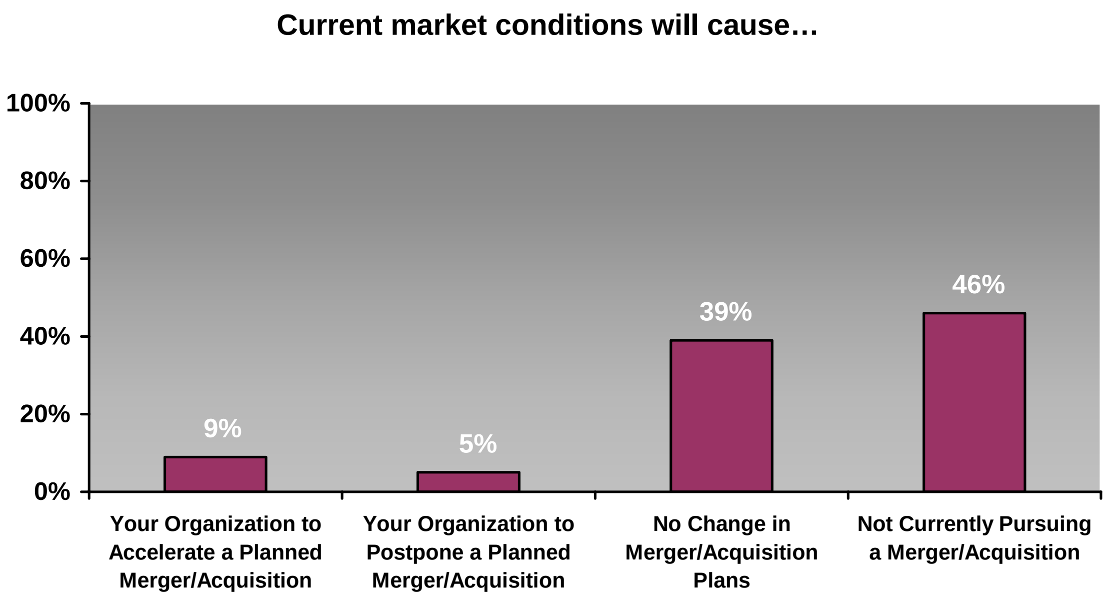
- Although the majority of respondents in 2006 (62%) and 2007 (54%) said that companies today need to survive on less capital than they did 10 years ago, fewer respondents agreed with this statement in 2007, compared to 2006.

- Emerging company executives expressed a stronger belief that companies today need to survive on less capital today versus 10 years ago (65%), compared to investors (54%) and advisors (43%).

- Compared to 2005 data, fewer respondents in 2006 and 2007 believe that it is more difficult to start a company today versus 10 years ago. Investors feel strongest that it is less difficult to start a company today, with 73% of investors choosing this option compared to 33% of executives and 32% of advisors.

- These results demonstrate that investors are flush with cash, but the people running emerging companies believe they have to survive on less capital than they did 10 years ago. The general belief that it is less difficult to start a company also reflects the fact that there is more money out there.



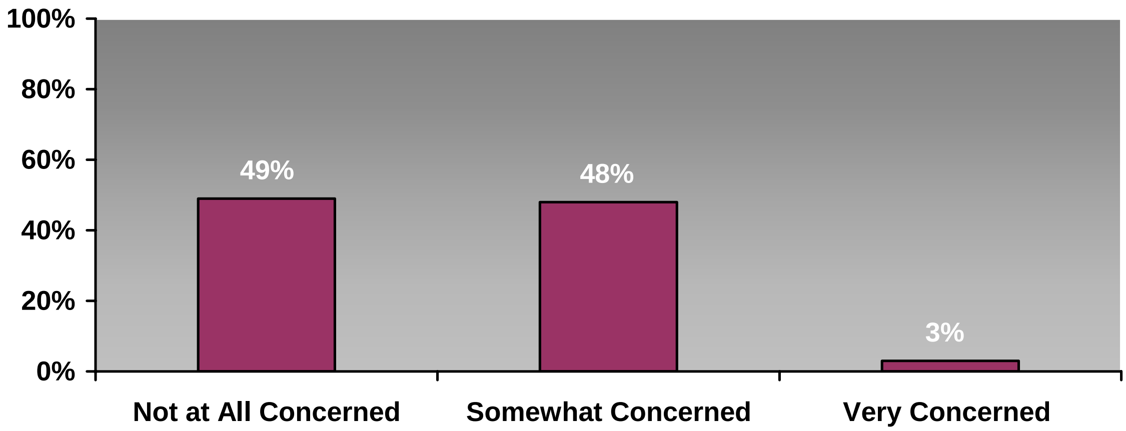


- Similar to the beliefs of investors regarding the impact of the credit crunch, the majority of respondents do not believe the credit crunch has made it more difficult to do business (61%). Furthermore, the majority of respondents to the 2007 survey stated that market conditions have not changed their M&A plans (39%) or that they are not pursuing a merger or acquisition (46%).

- The effect of market conditions on M&A plans is consistent when results are segmented by respondent group, however a vast majority of investors (85%) believe that the credit crunch has not made it more difficult to do business, compared to advisors (57%) and emerging company executives (58%).

- We believe this demonstrates that while the credit crunch may make it a bit more difficult to raise money, most respondents are not changing the way they operate their business because of the credit crunch just yet. As of the date of this survey, there is still a fair sense of market confidence and people don't actually see an impact, although they are biding their time carefully.

What is your feeling on the impact of the junk bond market on your business/investment activities?

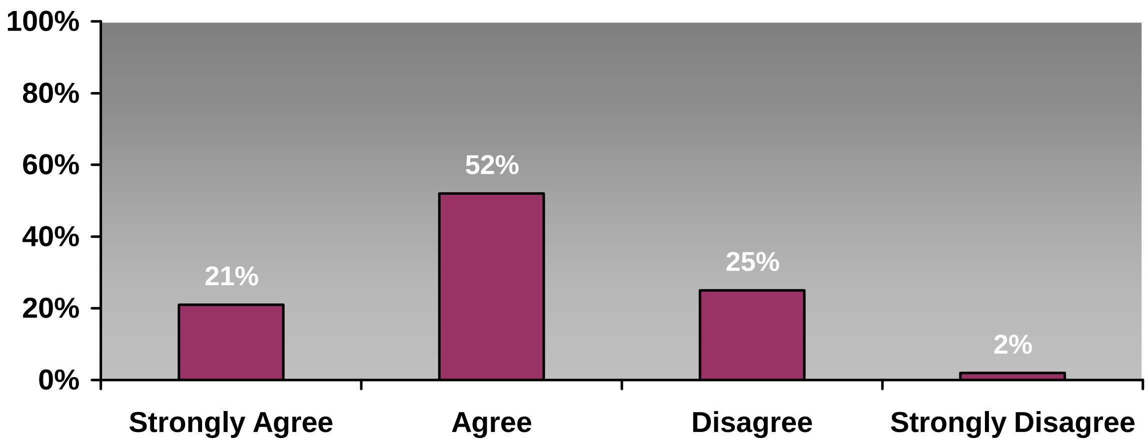


- Although a significant number of respondents expressed no concern (49%) about the impact of the junk bond market on their business / investment activities, 48% of respondents expressed mild concern. This result was consistent across all three respondent groups.

- Although respondents acknowledged there may be a problem in the junk bond market, it is not seen as a major concern right now. Nonetheless, it is interesting to note that more respondents expressed concern about the impact of the junk bond market than the credit crunch. This is further evidence that the credit crunch is being over-hyped.

- In the last few years, the spread between high quality debt securities and junk bonds has narrowed. However, it has since widened again and is rising to a more normal rate. We believe this result suggests that people are worried that junk bond companies are running the risk of bankruptcy.

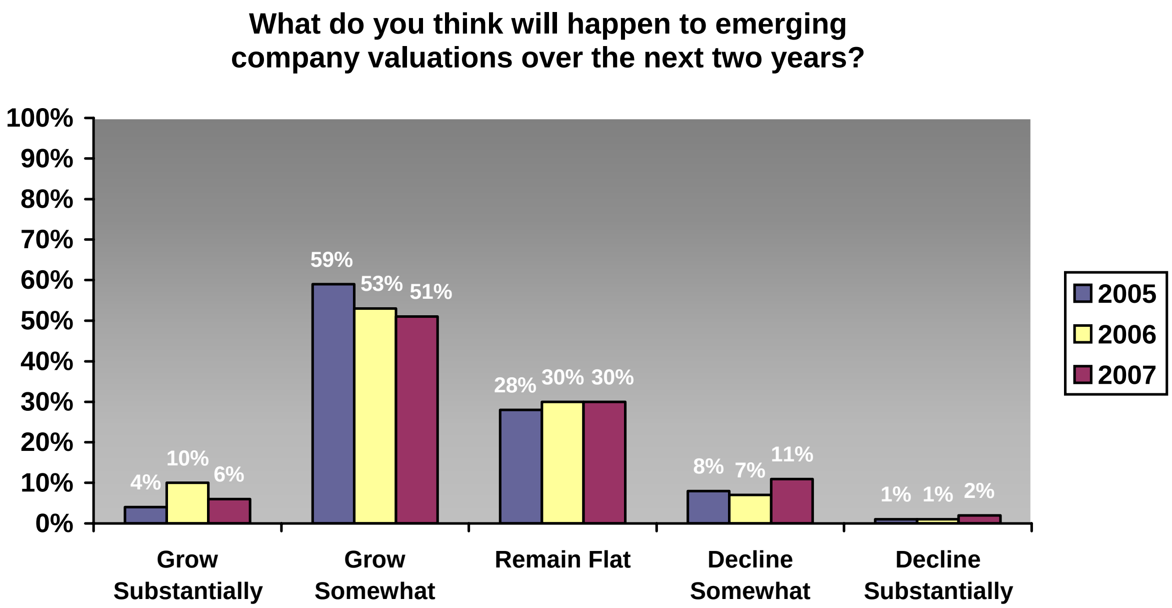
To what extent do you agree that the current trend of VCs focusing on larger deals has resulted in a funding gap, making $5 million to $10 million deals scarce?



- A large percentage of respondents to our 2007 survey (73%) agreed that the current trend of VCs focusing on larger deals has resulted in a funding gap and made $5 million to $10 million deals scarce. Although executives were somewhat more likely to agree with this statement (79%), compared to advisors (70%) and investors (65%), the results were relatively consistent across respondent groups.

- We believe the strong agreement to this statement across respondent groups is due to two factors. First, as funds have raised more money, they need to focus on larger deals and put out bigger chunks of money. Second, later stage investment poses less of a risk and less returns.

- This result is likely due to the fact that we are seeing more organized angel groups and that there is a significant opportunity in the angel phase.



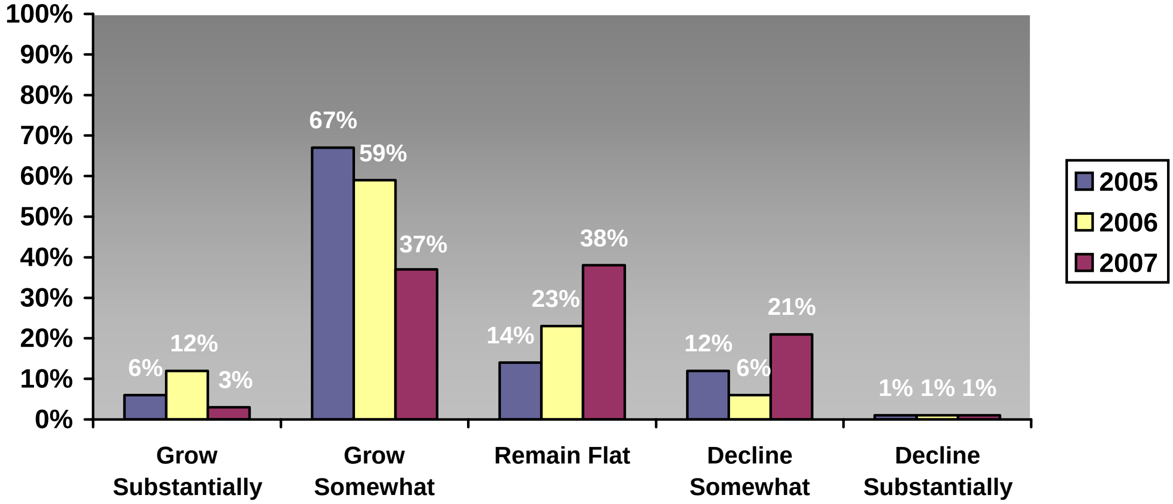
- Respondents to the 2005, 2006 and 2007 survey expressed cautious optimism regarding emerging company valuations over the next two years and predicted slight growth overall. Year-over-year results have remained remarkably consistent.

- As expected, emerging company executives were more optimistic than advisors and investors responding to our survey, as 70% of executives predicted valuations to grow “substantially” or “somewhat,” compared to 51% of advisors and 39% of investors.

- We believe the minor drop in respondents predicting slight growth and the small increase in predicting valuations will “decline somewhat,” compared to 2006 data, demonstrates that respondents are a little more realistic and less bullish this year, but are not in any way panicked or pessimistic.

- It will be interesting to see if this downward trend becomes more pronounced and if respondents become more pessimistic in 2008 due to market conditions.

Access to capital over the next two years will…



- Compared to previous years, the number of respondents predicting substantial or slight growth in access to capital over the next two years declined in 2007. The number of respondents predicting slight growth has declined steadily from 2005 (67%) to 2006 (59%) to a sharp drop in 2007 (37%).

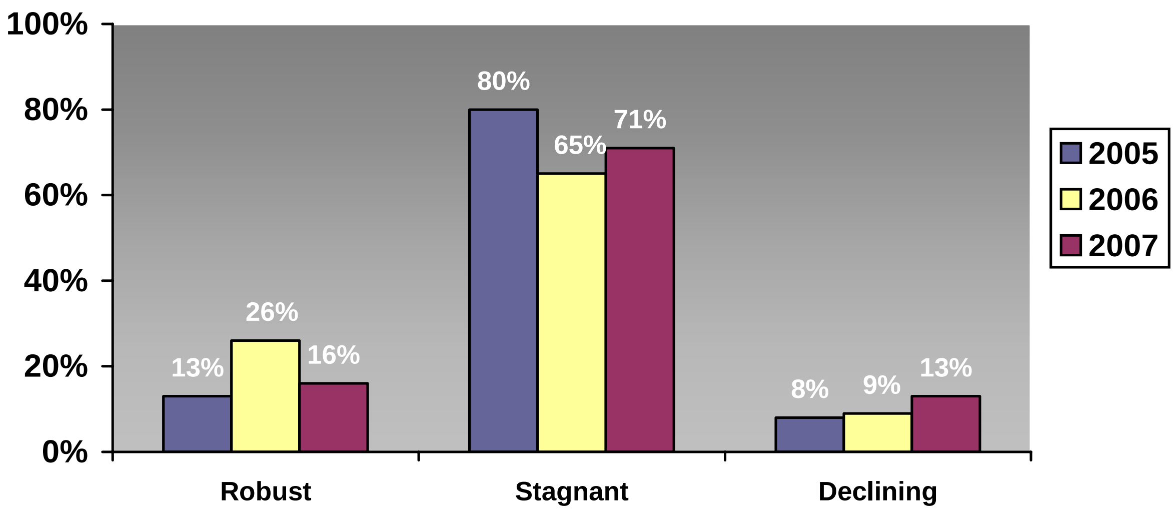
- At the same time, the number of respondents predicting no growth has risen steadily from 2005 (14%) to 2006 (23%) to 2007 (38%). The belief that access to capital will decline slightly over the next two years also increased in 2007, compared to 2005 and 2006.

- These results further amplify the conclusion from the previous graph that respondents are slightly more realistic and less bullish in 2007, but are not pessimistic.

- When segmenting 2007 responses by group, a higher percentage of investors (58%) predicted no growth compared to executives (41%). Similarly, executives were more likely to predict slight growth (38%) compared to investors (19%). Thus, executives predict slight growth in access to capital, whereas investors feel it is more likely to remain flat.

- In regards to raising capital, investors indicated that they have raised a significant amount of capital over the past year and plan to continue to raise new funds. Thus, investors believe access to capital will remain flat in the market as a whole, but that they, personally, will raise funds.

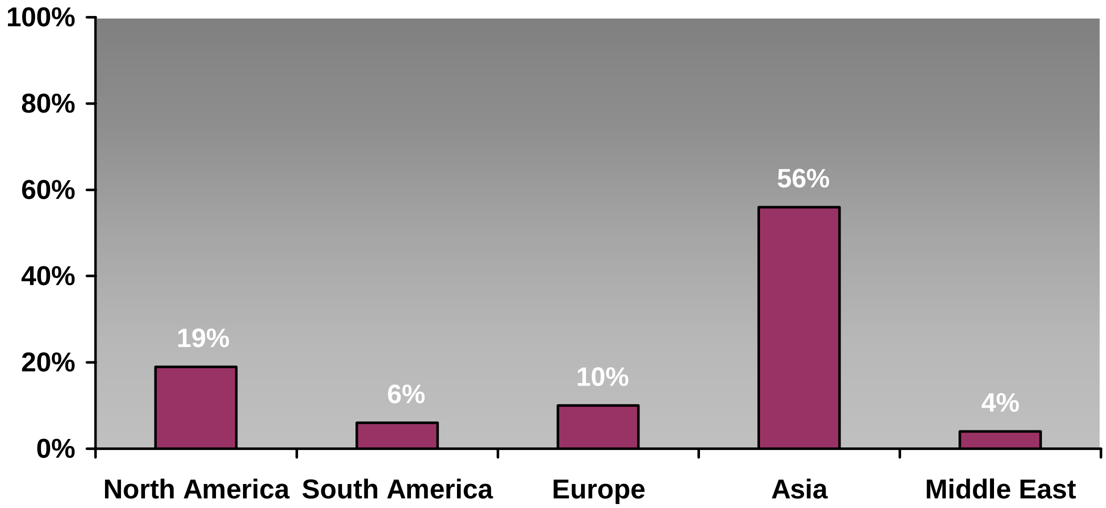
What is your view of the IPO market over the next two years?



- Respondents to the 2006 survey expressed greater optimism for the IPO market compared to 2005 data, with an increase in respondents (26%) predicting “robust” growth over the next two years and a decrease in respondents predicting a “stagnant” IPO market (65%). However, the number of respondents predicting “robust” growth decreased again in 2007 (16%).

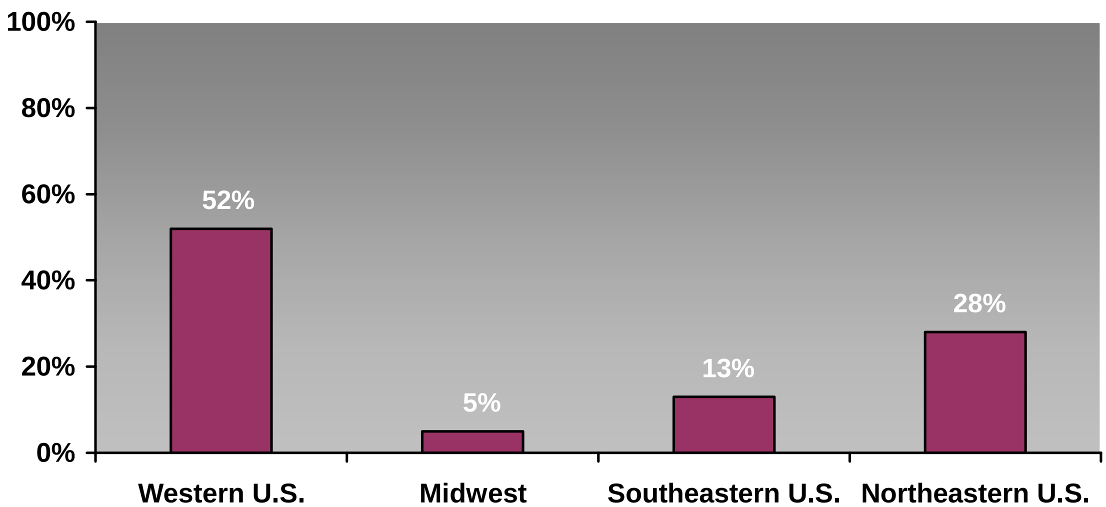
- Nonetheless, the number of respondents predicting the IPO market will be stagnant or will decline over the next two years has remained fairly consistent across 2005, 2006 and 2007 data.

What regions are best poised for economic growth to benefit emerging companies?



- The overwhelming majority of respondents in 2007 (56%) chose Asia as the region best poised for growth to benefit emerging companies.

What area of the United States provides the best economic environment for emerging companies today?



- The majority of respondents in 2007 identified the Western U.S. as the area of the U.S. with the best economic environment for emerging companies, followed by the Northeastern U.S. (28%).

METHODOLOGY

In November of 2007, Foley & Lardner LLP distributed a survey to a group of founders, executives, advisors, outside consultants, investors and potential investors in the emerging technology industry. The survey was completed by 215 respondents.

The demographic make-up of respondents includes 47% outside consultants/advisors, 40% emerging company executives and 12% investors. A geographic break-down of respondents includes:

- North America (84%)
- Europe (14%)
- Asia (1%)
- South America (1%)

The survey coincides with Foley's 2007 Emerging Technologies Conference held in Boston on December 13, 2007 and is attended by many of the executives included in the survey.

Due to rounding, all percentages used in all questions may not add up to 100 percent.