

SEVEN HILLS

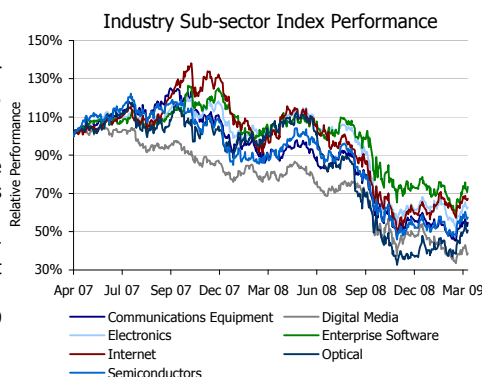
Technology Market Report

Seven Hills is pleased to present our Q109 Technology Market Report, which provides readers with information regarding the technology sector as a whole, information relating to the M&A market environment, as well as information related to capital raising for both public and private companies. Seven Hills actively covers Communications Equipment, Digital Media, Electronics, Enterprise Software, Internet, Optical, and Semiconductor companies. The SHP Technology Index tracks 641 publicly traded companies in these sectors.

Technology Market Overview

Despite challenging macroeconomic conditions, the broader technology market experienced signs of improvement during Q109. Most SHP tracked indices began flattening out during the quarter.

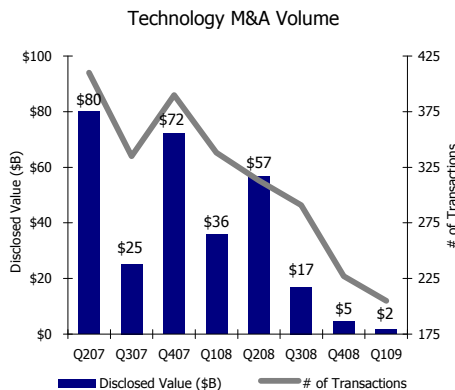
- Valuation multiples have improved - the average EV / LTM revenue multiple increased 4% in Q109 from a quarter prior for companies in the SHP Technology Index
- Growth expectations for 2009 are negative for all industry sub-sectors, with the Semiconductor sector expecting the greatest revenue decrease (24%) from 2008
- Median trailing 1-year revenue growth declined to -1% in Q109 from >13% in Q108



M&A Environment

Mergers & Acquisitions activity continued to decline in Q109, as both strategic and financial acquirors remained cautious.

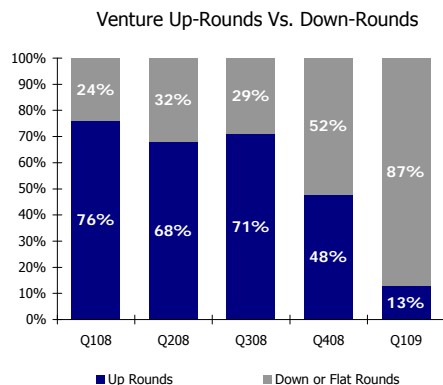
- Q109 technology M&A disclosed value and transaction volume decreased 62% and 10% respectively vs. Q408, and 95% and 39% respectively vs. Q108
- The Enterprise Software sub-sector was the most active in Q109 with 87 transactions, representing 43% of the technology M&A exits in Q109; the sub-sector also produced the highest median EV / LTM revenue and EV / LTM EBITDA exit multiples in Q109
- M&A accounted for 100% of venture-backed technology exits in Q408 & Q109



Capital Raising Environment

Capital raising for both publicly traded and private companies remained challenging in Q109, as investors demanded lower valuations and aggressive terms.

- 87% of Q109 venture financings were down-valuation rounds, the highest percentage since data has been recorded
- Enterprise Software remained the most active technology sub-sector for venture capital investments
- Technology PIPE proceeds and transaction volume stabilized but remain well below historical levels



About Seven Hills

We are a leading provider of financial advisory and corporate finance services to growth companies. We deliver a combination of technical expertise gained at major Wall Street firms and an entrepreneurial drive developed during our years at growth company-focused investment banks. We concentrate our efforts in growth sectors of the economy in which our senior bankers have advised hundreds of companies and established a broad network of corporate and institutional investor relationships. We work with companies in the technology, healthcare, cleantech, and applied technology industries. Seven Hills is an independent firm owned by its Partners and a select group of private investors.

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- Private Equity Placements
- Private Debt Placements
- PIPE Financings
- Registered Direct Placements
- Recapitalizations
- Fairness Opinions

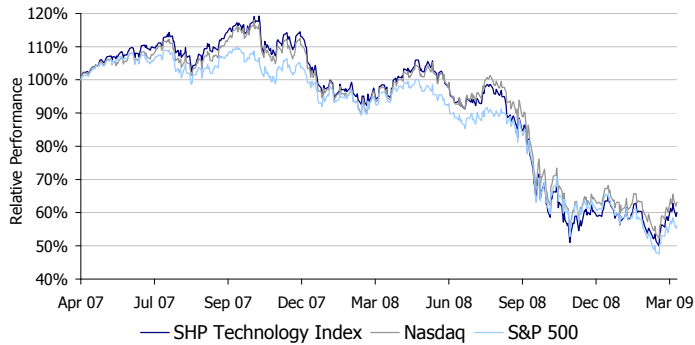
MARKET ENVIRONMENT

Despite continued challenging macroeconomic conditions, the SHP Technology Index experienced signs of improvement in Q109, slightly outperforming the Nasdaq and S&P 500 indices. Industry sub-sector relative performance ranged from -12% to 11% since January 1, 2009. Average EV/LTM revenue and EV/LTM EBITDA trading multiples increased 4% and 18% respectively in Q109 from a quarter prior. These trends, however, are expected to be temporary as all industry sub-sectors are forecasted to experience decreases in revenue relative to 2008.

INDEX PERFORMANCE

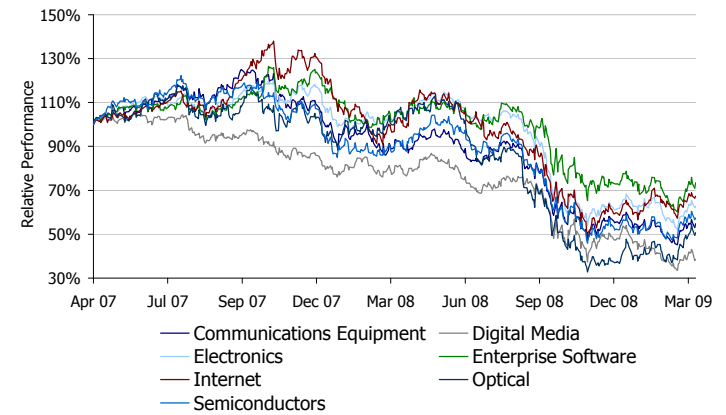
TECHNOLOGY INDEX PERFORMANCE⁽¹⁾

The SHP Technology Index declined 1% during Q109 compared to a 21% decline during the previous quarter. Broader market indices have begun to flatten at similar rates.



INDUSTRY SUB-SECTOR INDEX PERFORMANCE⁽¹⁾

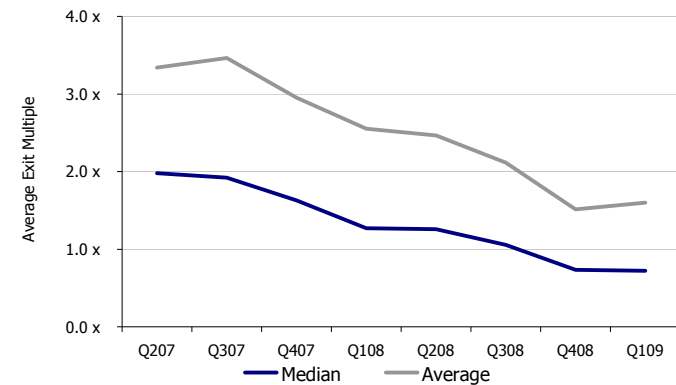
SHP sub-sector indices experienced a leveling off during Q109. Of note, the best performing indices were Internet and Optical, rising 7% and 11%, respectively.



TRADING MULTIPLES

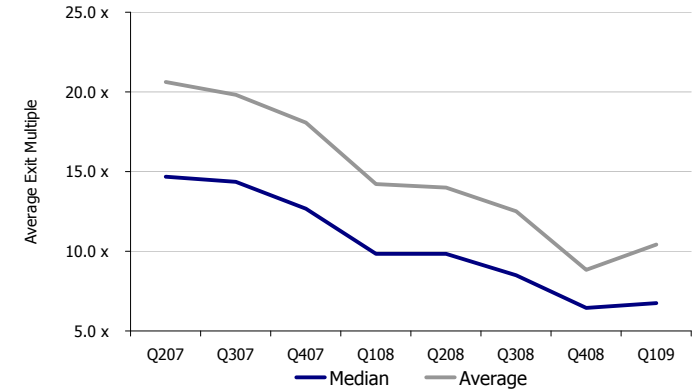
VALUATIONS: EV / LTM REVENUE⁽¹⁾

The average EV / LTM revenue multiple increased 4% to 1.6x during Q109 for companies in the SHP Technology Index after reaching their lowest level in eight years in Q408.



VALUATIONS: EV / LTM EBITDA⁽¹⁾

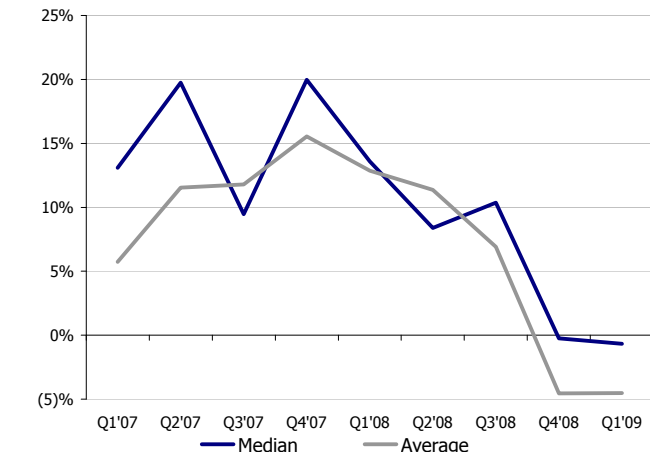
The average EV / LTM EBITDA multiple increased 18% to 10.4x during Q109 following a 30% decline in Q408 for companies in the SHP Technology Index.



GROWTH

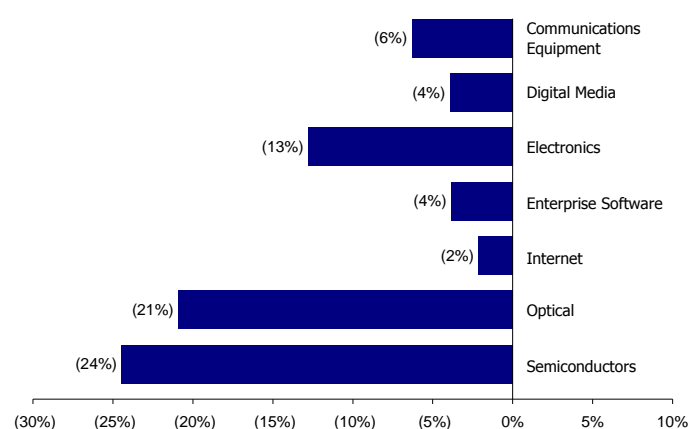
1 YEAR TRAILING REVENUE GROWTH⁽¹⁾

Q109 trailing revenue growth rates began to stabilize for companies in the SHP Technology Index. Median and average growth rates were down -1% and -5% respectively in Q109.



2009 GROWTH EXPECTATIONS⁽¹⁾

CY09 revenue growth rates are expected to be negative across all SHP Technology sub-sectors, with Semiconductors and Optical expecting the greatest year-over-year declines of -24% and -21%, respectively.



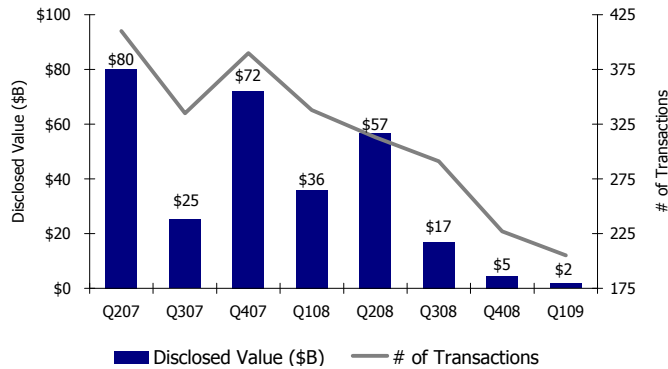
M&A ENVIRONMENT

Technology M&A transaction volume and value continued to decline in Q109. Quarterly M&A volume declined 10% and disclosed value fell 62% vs. Q408. The Q109 M&A median and mean disclosed value declined 59% and 40%, respectively. The Enterprise Software, Communications Equipment, and Electronics sub-sectors accounted for over 73% of all Q109 technology exits. Median disclosed revenue exit multiples ranged from 1.0x - 2.0x in Q109. M&A remains the predominant exit as there were only two VC-backed technology IPOs in the last twelve months.

VOLUME & VALUATION

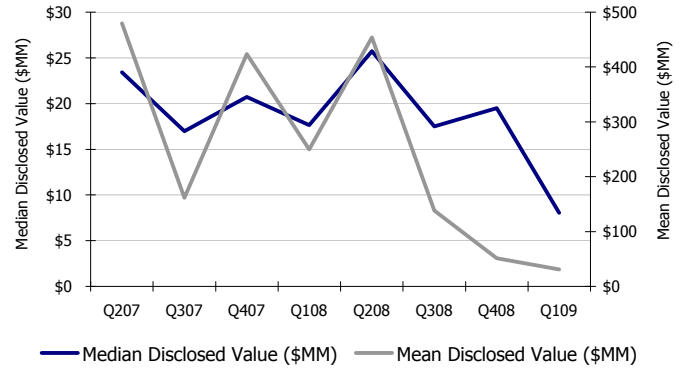
TECHNOLOGY M&A VOLUME⁽¹⁾

Q109 technology M&A disclosed value and transaction volume decreased 62% and 10% respectively vs. Q408, and 95% and 39% respectively vs. Q108.



TECHNOLOGY M&A VALUATION⁽¹⁾

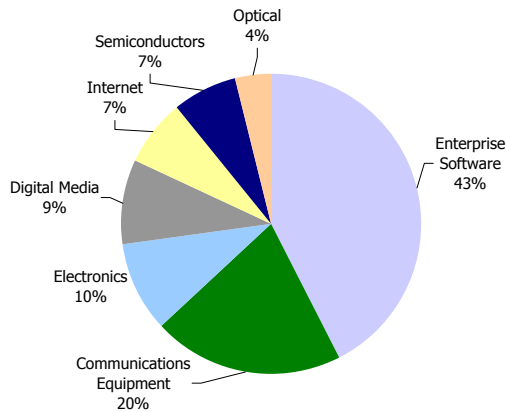
Q109 technology M&A median and mean value decreased 59% and 40% respectively vs. Q408, and 55% and 88% respectively vs. Q108.



Q1 EXITS

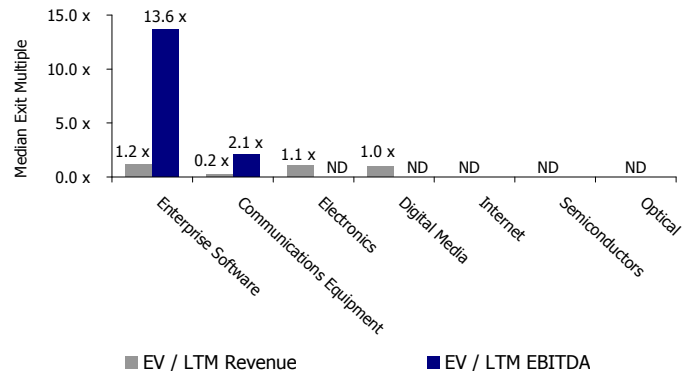
Q109 EXITS BY INDUSTRY⁽¹⁾

43% of the technology M&A exits in Q109, totaling 87 transactions, occurred in the Enterprise Software sub-sector.



Q109 MEDIAN EXIT MULTIPLE BY INDUSTRY⁽¹⁾

Minimal M&A exits in Q109 limited the amount of transaction data available. Of the disclosed values, Enterprise Software produced the greatest median exit multiples.

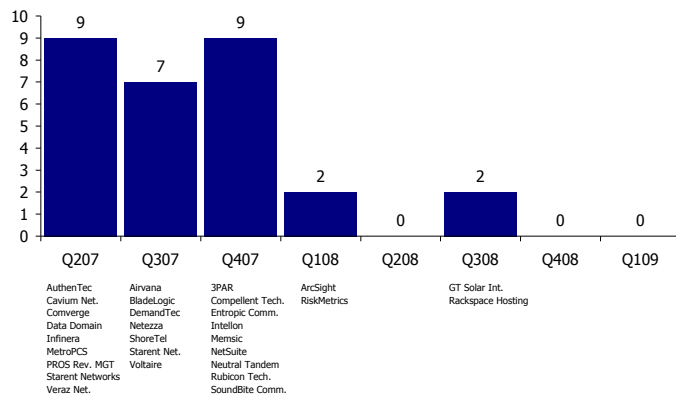


* Communications Equipment and Semiconductors EV / LTM EBITDA multiples not disclosed (ND)
Electronics, Internet, and Optical EV / LTM Revenue and EV / LTM EBITDA multiples not disclosed (ND)

EXITS

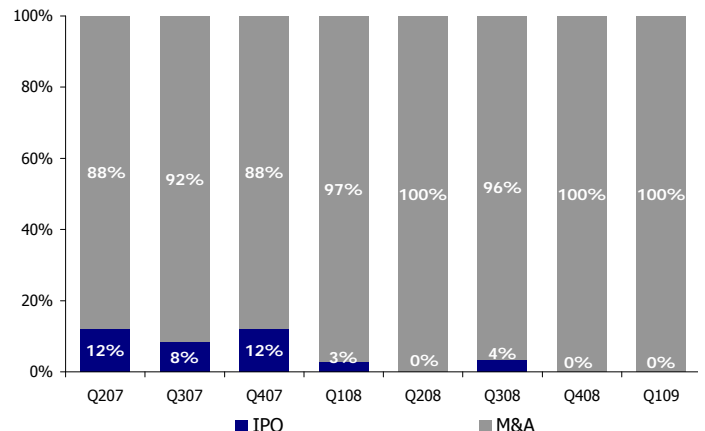
IPOs⁽²⁾

The global financial crisis in 2008 created a historically volatile market with only seven venture-backed IPOs, four in the technology sector. For the first time since data has been recorded, two consecutive quarters had no venture-backed IPOs.



VC EXITS⁽²⁾

Due to the inactive IPO market, M&A activity constituted 99% of the venture exits in CY08 and 100% in Q109. No venture-backed IPOs were recorded in Q109.



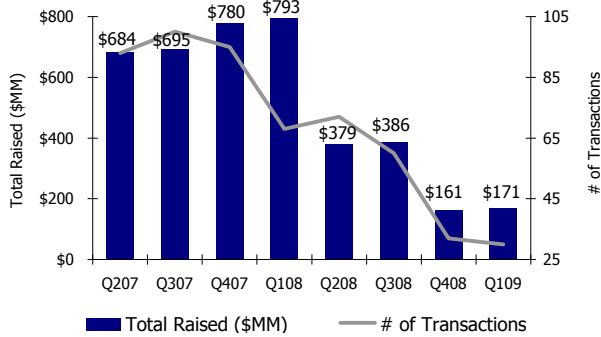
PIPE ENVIRONMENT

Given the volatility of the stock market over the past six months and investors continuing to face Limited Partner redemption issues, the \$171MM of technology PIPE proceeds raised in Q109 represents a slight increase of 6% from Q408. The number of technology PIPE transactions reached a four-year low with 30 total transactions. Furthermore, PIPE investors are strongly biased toward Registered Direct financings in a volatile market. SHP tracks technology PIPEs for issuers with market capitalizations of less than \$500MM raising between \$1MM - \$50MM.

VOLUME & PROFILE

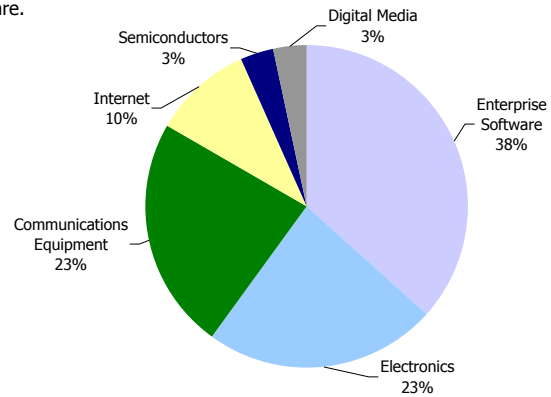
TECHNOLOGY PIPE MARKET VOLUME⁽³⁾

Technology PIPE proceeds and transaction volume remained steady in Q109 with proceeds increasing 6% and volume decreasing 6%. PIPE volume declined 56% and proceeds raised fell 79% from a year prior.



Q109 PIPE INVESTMENTS BY TECHNOLOGY SECTOR⁽¹⁾

Enterprise Software, Communications Equipment, and Electronics companies remain the most active issuers in the technology industry with a combined 84% market share.

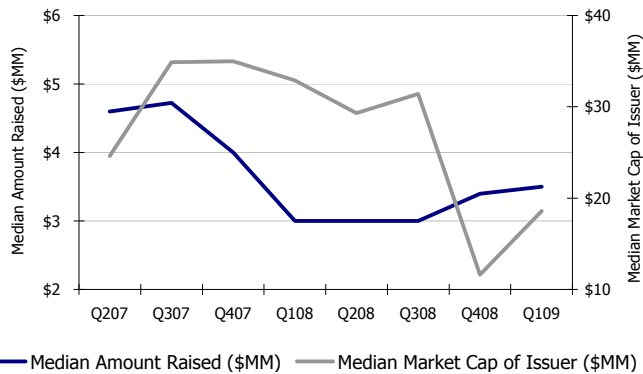


* No Optical PIPE transactions occurred in Q109

INDUSTRY & TYPE

TYPICAL TECHNOLOGY PIPE PROFILE⁽³⁾

Median market capitalization of technology issuers increased 60% in Q109, but is still down 43% from Q108. Median amount raised increased 17% in Q109 from \$3MM in Q108.



Q109 TECHNOLOGY PIPES BY SECURITY TYPE⁽³⁾

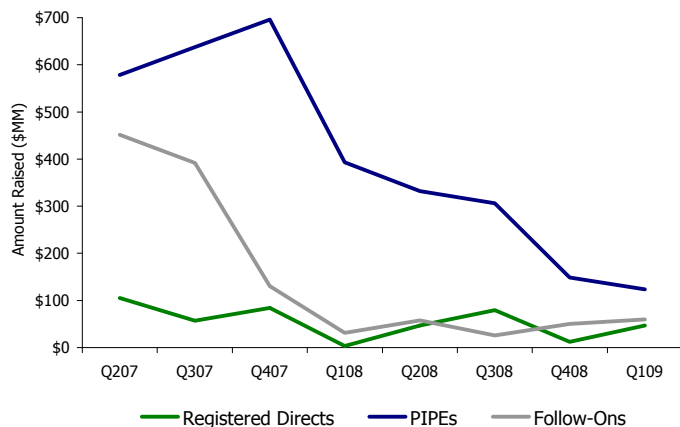
Common Stock transactions became more scarce in Q109, representing 21% of all PIPE deals. Historically, Common Stock deals represent approximately 50% of quarterly technology PIPE transactions.

Type	# of Deals	% of Deals	Median					Prem/(Disc) Warrant
			Issuance	Market Cap.	Prem./ (Disc.)	Dilution	Warrant Coverage	
Common Stock	6	21.4%	\$3.0	\$48.3	(7.0)%	14.2%	76.0%	3.2%
Debt: Convertible	7	25.0%	\$1.3	\$17.1	(7.7)%	26.8%	95.0%	3.3%
Debt: non-Convertible	6	21.4%	\$8.0	\$13.5	NA	30.5%	51.9%	2.0%
Preferred Stock: Convertible	7	25.0%	\$3.0	\$16.6	4.5%	13.7%	30.0%	3.3%
Equity Line	2	7.1%	\$10.5	\$12.9	(10.5)%	151.7%	NA	NA

COMPOSITE MARKET STATISTICS

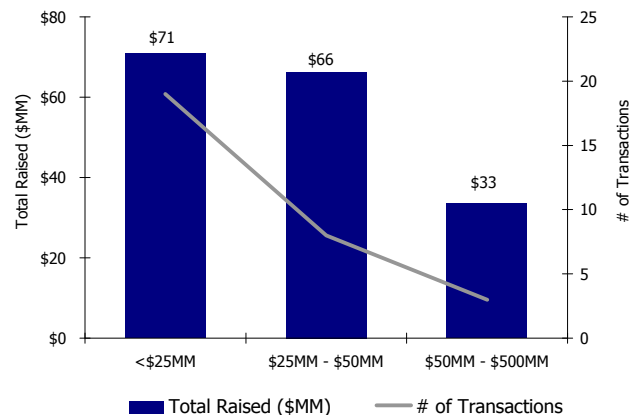
TECHNOLOGY EQUITY FINANCINGS PROCEEDS⁽³⁾

Registered Direct financings increased due to market volatility, representing 20% of proceeds raised in Q109.



Q109 TECHNOLOGY PIPE PROCEEDS BY MARKET CAP⁽³⁾

90% of PIPE transactions were completed by companies under \$50MM in market cap in Q109. Just three financings were completed by companies with a market cap between \$50MM and \$500MM.



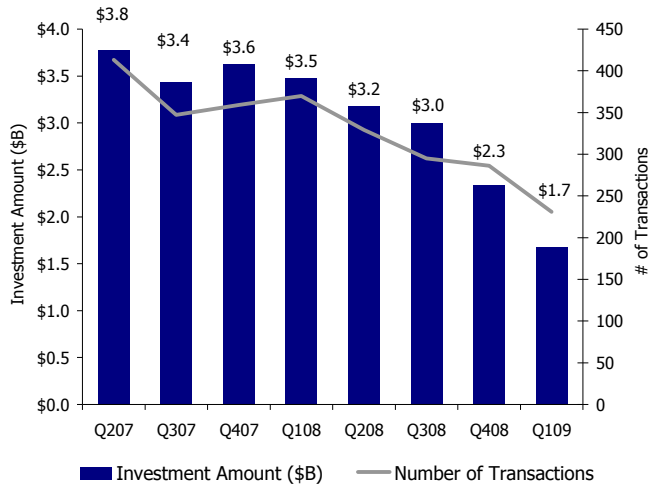
PRIVATE FUNDING ENVIRONMENT

Venture financings continued to feel the effects of market volatility in Q109. The total amount invested matched historical lows of 1998; however the National Venture Capital Association (NVCA) expects a mild and steady increase in investment throughout the rest of the year (NVCA, April 2009). Enterprise Software & Communications Equipment combined to represent 54% of venture funding in Q109. New investment activity is expected to decline as investors place additional time and focus on existing portfolio companies, due to the weakened IPO and M&A markets.

VOLUME & SECTOR

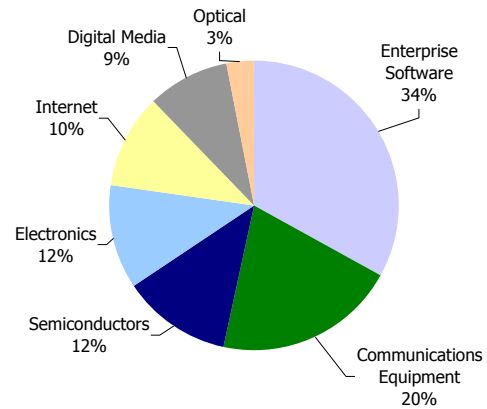
PRIVATE FUNDING VOLUME⁽²⁾

Q109 venture funding was down 28% from the previous quarter; transaction volume fell by 26%.



Q109 FUNDING BY SECTOR⁽¹⁾

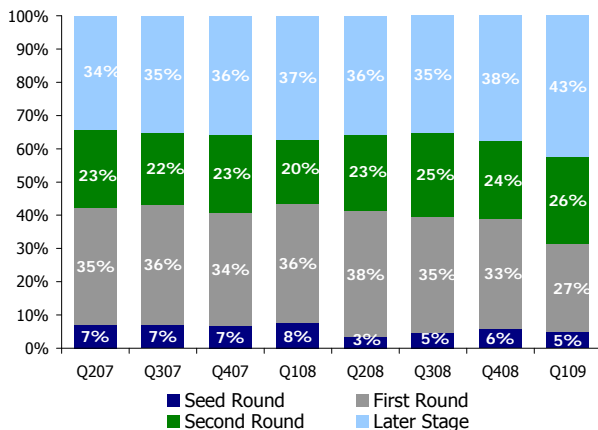
Enterprise Software and Communication Equipment companies continue to receive the most funding from VCs, accounting for 34% and 20% of the funds received in Q109, respectively.



STAGE & VALUATION

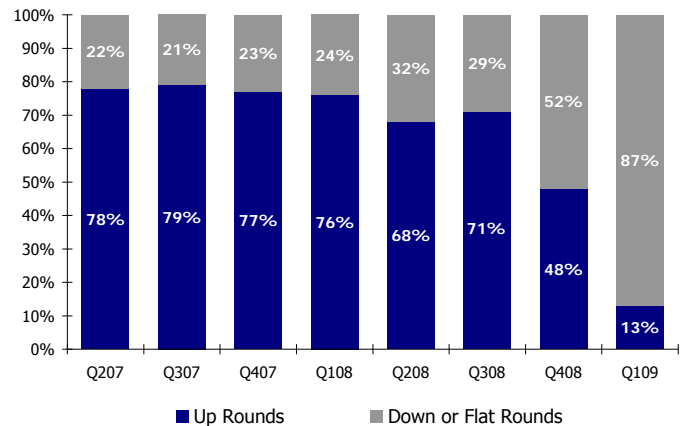
TRANSACTION BREAKDOWN⁽⁴⁾

Due to a weak exit environment, later stage financings are becoming more prevalent.



UP ROUNDS VS. DOWN ROUNDS⁽⁴⁾

Down or flat rounds exceeded up rounds by the largest margin in recorded history. Investors are still looking to deploy capital, but with lower valuation and aggressive terms.



ABOUT THIS REPORT

The Seven Hills Technology Index is comprised of 641 technology companies across the following sectors: Communications Equipment, Digital Media, Electronics, Enterprise Software, Internet, Optical, and Semiconductors. The data for this report was compiled using data from the following sources: (1) Technology companies from the Seven Hills Technology Index as classified by Seven Hills from Capital IQ; (2) Venture-backed technology companies as classified by Dow Jones VentureSource; (3) Technology companies as classified by PrivateRaise; (4) Technology companies as classified by Cooley Godward Kronish LLP Private Company Financing Report Q109. For more information regarding this report, please contact any of the Seven Hills partners, principals, or vice presidents.

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