



Advisory Services • Strategic Partnerships & IT Transactions • Mergers & Acquisitions • Private Placements

A central graphic showing a perspective view of a wireframe grid that curves upwards on both sides, creating a valley-like shape. The grid lines are dark brown against a lighter brown background.

realizing corporate value

6sight: The Future of Imaging
October 2006

Member NASD/SIPC

Tricia's Top Ten Tenets of M&A

1. **Fortune Favors The Focused**

Yes, your product probably can do everything – but buyers think in narrow niches – if you don't meet specific strategic needs, you may not get a first meeting.

2. **Make Friends Early and Often**

In order to get a strategic price, the buyer has to know you strategically; Talk to analysts, newspapers, gain publicity

3. **Keep it Clean**

Clean financials, professional review even if you don't have an audit; Have employees sign Inventions and Assignment agreements

4. **Don't Give away the Farm**

Watch out for distribution exclusivity, right of first refusals and assignment clauses

5. **Size Matters**

Bigger is better. At least \$10MM in revenue seems to be a magic threshold for mature companies.

Tricia's Ten Tenets of M&A Cont'd

6. **Choose Your Battles**

If Google, Yahoo, and Microsoft are the only acquisition partners on your list – think again.

7. **One Size Does Not Fit All**

Call the buyer's listed customers – if they don't want your product, neither will the buyer.

8. **Houston, We Have Revlon**

Ask your attorneys about “Revlon Duties” and when an unsolicited bid may put you in play.

9. **Price Isn't Everything**

Don't neglect terms such as indemnification, escrow, employee contracts.

10. **Stick Around After the Party**

If you leave before the end of the escrow period, kiss that money goodbye.

Visual Communications in Transition

- Shutterfly goes public in \$300M IPO
 - Photobucket had an audience of 14.7 million visitors in September
 - 153 million photographs uploaded on the web from 3 million users worldwide on Flickr last year
- Nearly 8 million U.S. mobile subscribers -- or 3% of the market -- are now using their phones to capture video, a figure that jumps to 6% among subscribers who recently purchased a new handset, according to a report from San Francisco-based market research firm **Telephia**
- Google pays \$1.7 Billion for YouTube (the site is estimated to account for some 60% of all videos viewed online)

Technology M&A Trends

- 2,829 new mergers and acquisitions were announced in the technology and communications sectors in 2005, with an aggregate value of \$339bn – up 42% and 62% respectively from 2004.
- The aggregate deal value in 2005 was greater than the value of 2002, 2003 and 2004 combined; also, there were more deals valued above \$500m in 2005 than in the prior three years combined.
- The median size of deals with disclosed values has risen substantially, going from \$21.3m in 2004 to \$25.0m in 2005, an increase of 17%.
- The median deal value in the software sector, which has seen some prominent large transactions in the past year, rose 32% to \$19.5m.
- "Right now we have upwards of 90% of companies going the M&A route, rather than the IPO route," said Mark Heesen, president of the National Venture Capital Association, who posits that M&A is driving nearly all exits during the current drought of tech IPOs.

Source: 451 M&A KnowledgeBase

Venture-Backed Liquidity Events by Year/Quarter, 2001-2006

Quarter/Year	Total M&A Deals	M&A Deals with Disclosed Values	*Total Disclosed M&A Value (\$M)	*Average M&A Deal Size (\$M)	**Number of IPOs	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
2001	353	165	16798.9	101.8	41	3,489.9	85.1
2002	318	152	7916.4	52.1	24	2,473.5	103.1
2003	293	123	7726.1	62.8	29	2,022.7	69.7
2004-1	80	45	3921.0	87.1	13	2,721.1	209.3
2004-2	89	48	4514.6	94.1	29	2,077.8	71.6
2004-3	87	47	4142.8	88.1	24	3,225.6	134.4
2004-4	84	46	2862.2	62.2	27	2,990.4	110.8
2004	340	186	15440.6	83.0	93	11,014.9	118.4
2005-1	82	46	4364.9	94.9	10	720.7	72.1
2005-2	80	36	4791.0	133.1	10	714.1	71.5
2005-3	98	47	4374.8	93.1	19	1,458.1	76.7
2005-4	86	39	2563.7	65.7	17	1,568.1	92.2
2005	346	168	16094.4	95.8	56	4,461.0	79.7
2006-1	104	48	5384.4	112.2	10	540.8	54.1
2006-2	91	37	3747.6	101.3	19	2,011.0	105.8
2006-3	74	34	2758.6	81.1	8	934.2	116.8
2006	269	119	11890.6	99.9	37	3486	92.2

Thomson Financial & National Venture Capital Association

*Only accounts for deals with disclosed values

**Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile.

Representative Transactions in Visual Communications

<u>Announced</u>	<u>Acquirer</u>	<u>Target</u>	<u>Value (Millions)</u>	<u>Target Abstract</u>
2006-10-09	Google	YouTube	\$1,650	Online video uploading and sharing
2006-08-28	Corel	Intervideo	\$196	Consumer DVD authoring software
2006-07-17	Mitek Systems	Parascript	\$144	Image analytics software
2006-04-06	Getty Images	Pixel Images	\$135	Royalty-free images
2006-10-16	3M	Brontes	\$95	Dental scanning & imaging software
2006-08-23	Sony	Grouper	\$65	Online video community site
2006-03-07	Cisco	SyPixx	\$51	Video networking hardware & software
2006-08-29	Himax	Wisepal	\$50	Display systems fabless semiconductors
2006-01-10	AOL	Truveo	\$50	Video search engine
2006-06-27	LSI	Saco	\$43	LED-based display systems
2006-03-02	Apax Partners	Pictage	\$29	Online image hosting & services
2006-02-02	JupiterImages	Stock Images	\$11	Digital stock images
2006-04-03	Smith Micro	PhoTags	\$7	Digital photography watermarking software
2006-09-29	Aspiro AB	Rubberduck Media	\$3	Mobile television broadcasting software
2006-10-18	Immersive Media	Freestone Systems	\$3	Video imaging & display software

Private Placement Trends

- Amount invested by VCs in the U.S. grew to \$12.9 billion in 1H 2006 vs. \$11.5 billion in 2005
 - Highest investment levels since 2001
 - VCs invested \$2.4 billion in SF Bay Area companies, 13% more than in 2005
- IT investment in Q2 increased to \$3.5 billion, a 2% increase vs. 2005
 - Information services financings (79) increased 128% to \$637M
 - Electronics and computers financings (32) increased 54% to \$412M
 - Communications and network equipment financings (22) declined 40% to \$639M
- Later-stage deals represented 38% of financings in Q2 and 48% of total capital invested
- Typical liquidation preference terms
 - 1x – 2x of investment (83%)
 - Seniority (35% for B round)
 - Participation (65%), with a capped maximum return (64%)
- In Q2 2006 fifty venture capital funds raised a total of \$11.2 billion, the highest level since the first quarter of 2001.

Source: VentureOne, Fenwick & West, NVCA

Bay Area Visual Communications Q1 2006 Venture

HARDWARE / INSTRUMENTS					
COMPANY NAME	CITY	WEB SITE	AMOUNT	INVESTORS	DESCRIPTION
3VR Security	San Francisco	www.3vr.com	\$9,999,900	Kleiner Perkins Caufield & Byers, VantagePoint Venture Partners, In Q Tel	Intelligent digital video recording surveillance solutions.
Anthology Solutions	Santa Clara	www.anthologysolutions.com	\$9,999,900	BlueRun Ventures, Korea Technology Investment	Appliance for storing and managing critical digital content.
Nethra Imaging	Cupertino	www.nethra-imaging.com	\$3,000,000	Artiman Ventures	Digital imaging products.
Pure Digital Technologies	San Francisco	www.puredigitalinc.com	\$27,000,000	VantagePoint Venture Partners	Server systems to process output from digital cameras.
ePAC	San Leandro	www.epac.com	\$30,000,000	Menlo Ventures	Printing and logistics solutions for the technology industry.
NETWORKING / TELECOMMUNICATIONS					
COMPANY NAME	CITY	WEB SITE	AMOUNT	INVESTORS	DESCRIPTION
LimeLife	Menlo Park	www.limelife.com	\$10,000,000	U.S. Venture Partners, Rustic Canyon Partners, i Hatch Ventures, Monitor Venture Management	Mobile phone games and lifestyle applications
Santa Cruz Networks	Campbell	www.santacruznetworks.com	\$2,000,000	Draper Fisher Jurvetson, DFJ Frontier	Video conferencing and collaboration tools for the desktop.
SEMI CONDUCTORS					
COMPANY NAME	CITY	WEB SITE	AMOUNT	INVESTORS	DESCRIPTION
Auvitek International	Fremont	www.auvitek.com	\$9,000,000	BA Venture Partners, Storm Ventures, KLM Capital	Develops semiconductor demodulation chip for both digital televisions and multimedia PCs
Ambarella	Sunnyvale	www.ambarella.com	\$15,350,000	Walden International, Matrix Partners, Benchmark Capital	Consumer digital media applications.
Berkeley Design Automation	Santa Clara	www.berkeley-da.com	\$6,000,000	Bessemer Venture Partners, Woodside Fund	Electronic design automation software for analog and mixed-signal designs.
Mobilygen	Santa Clara	www.mobilygen.com	\$10,000,000	Kleiner Perkins Caufield & Byers, Redpoint Ventures	Video compression integrated circuits
Be Here	Fremont	www.behere.com	\$4,500,000	Wasserstein Ventures, Birchmere Ventures	Panoramic still-image camera lens system.

Bay Area Visual Communications Q1 2006 Venture cont'd

CONSUMER / BUSINESS SERVICES					
COMPANY NAME	CITY	WEB SITE	AMOUNT	INVESTORS	DESCRIPTION
MeeVee	Burlingame	www.meevee.com	\$6,500,100	Labrador Ventures, Defta Partners, WaldenVC, Rothschild Venture Capital	Online video entertainment search
Riya	Redwood City	www.riya.com	\$15,000,000	Leapfrog Ventures, Bay Partners, BlueRun Ventures	Facial recognition technology
Sling Media	San Mateo	www.slingmedia.com	\$46,600,100	DCM Doll Capital, Allen & Company, Goldman Sachs, Mobius, Hearst, Liberty Media Group, Hercules Technology	Personal broadcast equipment.
Tsunami Visual Technologies	Fremont	www.tsunamivisual.com	\$1,040,000	Maton Venture, Redmont Venture Partners, Honho Consulting Company	Motion-based game systems.
TV Head	Los Gatos	www.tvhead.net	\$8,500,000	Bay Partners, Apax Partners Worldwide	Interactive television games channel.
YesVideo	Santa Clara	www.yesvideo.com	\$4,050,000	Eastman Kodak, KLM Capital, Band of Angels	Video digitalization service.
SOFTWARE					
COMPANY NAME	CITY	WEB SITE	AMOUNT	INVESTORS	DESCRIPTION
Automattic-1	San Francisco	www.automattic.com	\$1,149,900	Polaris Venture Partners, Blacksmith Capital	Software to create and operate web blogs
Punch Entertainment-1	Mountain View	www.punch-entertainment.com	\$1,200,000	Management, IDG Ventures Vietnam	Mobile games.
RingThree Technologies-1	Mountain View	www.ringthree.com	\$2,000,000	New Enterprise Associates	Virtualization technologies for enterprise software deployment.
Linden Lab	San Francisco	www.lindenlab.com	\$10,999,800	Management, Globespan Capital Partners, Benchmark Capital, Catamount Ventures, Omidyar Network	3D-entertainment software
PhoneBites	San Francisco	www.phonebites.com	\$7,000,000	Mayfield Fund, Cardinal Venture Capital, Garage, Siemens	Mobile entertainment software
VideoEgg	San Francisco	www.videoegg.com	\$3,433,000	August Capital Management, First Round Capital	Technology for uploading digital media.
Mixonix	San Francisco	www.mixonix.com	\$400,000	Otter Capital	DVD and CD duplication software and websites services
PlayPhone	San Jose	www.playphone.com	\$500,000	Cardinal Venture Capital	Wireless entertainment products.

Bay Area Visual Communications Q2 2006 Venture

COMPANY NAME	CITY	WEB SITE	AMOUNT	INVESTORS	DESCRIPTION
CONSUMER / BUSINESS SERVICES					
Akimbo Systems	San Mateo	www.akimbo.com	\$15,500,000	Draper Fisher Jurvetson, Kleiner Perkins Caufield & Byers, Sprout Group, Cisco Systems, Blueprint Ventures, SBC Communications, Zone Ventures, Wasatch Venture	Content delivery systems for streaming media on the Internet
Bebo	San Francisco	www.bebo.com	\$15,368,000	Benchmark Capital	Social networking website
Limbo	San Mateo	www.41414.com	\$6,000,000	Draper Fisher Jurvetson	Mobile phone game and auction products and services
netPickle	Palo Alto	www.rockyou.com	\$1,500,000	Sequoia Capital	Online photo slideshow editor
One True Media	Redwood City	www.onetruemedia.com	\$5,000,000	Kleiner Perkins Caufield & Byers	Online platform to share photos and videos
Photobucket	Palo Alto	www.photobucket.com	\$10,500,000	Trinity Ventures	Visual content hosting and publishing services
Piczo	San Francisco	www.piczo.com	\$3,984,000	Sierra Ventures, Catamount Ventures	Online community of photo blogs
PostApp	Berkeley	www.postapp.com	\$1,500,000	Hummer Winblad Venture Partners	Web-based tools to enable the placement of applications, functionality and content into blogs, personal homepages, social networking sites, and auction pages
TV Head	Mountain View	www.tvhead.net	\$3,000,000	Bay Partners, Apax Partners Worldwide, Mitsui INCUBASE	Interactive television games channel
YouTube	Menlo Park	www.youtube.com	\$8,000,000	Sequoia Capital	Online video sharing services
Zannel	Menlo Park	www.zannel.com	\$6,000,000	Palomar Ventures	Social entertainment platform
Digital Chocolate	San Mateo	www.digitalchocolate.com	\$18,026,000	Sutter Hill Ventures, Kleiner Perkins, Sequoia Capital, Outlook Ventures, Montagu Newhall, Bridgescale Partners	Games and entertainment for mobile wireless devices
Feedster	San Francisco	www.feedster.com	\$2,200,000	Mitsui & Co. Venture Partners, Selby Venture Partners, Omidyar Network	Search engine for online content and weblogs
iBlocs	San Francisco	www.iblocs.com	\$3,000,000	Maveron	Content generation software for self-expression

Bay Area Visual Communications Q2 2006 Venture Cont'd

Company	City	Website	Amount	Investors	Business Description
Hardware/Industrial/Energy					
ClairVoyante	Cupertino	www.clairvoyante.com	\$7,000,200	Selby Venture, Intel Capital, Rocket Ventures, Pacifica Fund, American River	Sub-pixel technology for flat-panel displays and monitors
Spatial Photonics	Sunnyvale	www.sp-incorp.com	\$3,999,900	Kleiner Perkins Caufield & Byers, Intel Capital	Microdisplays for high definition projection displays
Networking/Telecommunications					
Exavio	Santa Clara	www.exavio.com	\$3,000,000	ComVentures, VantagePoint Venture Partners, Infotech Ventures	Network devices for digital media content access and distribution
RGB Networks	San Mateo	www.rgbnetworks.com	\$20,000,000	Focus Ventures, Kleiner Perkins, Accel Partners, Comcast Interactive Capital, Mitsui & Co.	Switched-digital video network tools
AZTEQ Mobile	Walnut Creek	www.azteqmobile.com	\$4,047,900	IGNITE Group, Japan Asia Investment, iSherpa Capital	Mobile communication products
FilmLoop	Palo Alto	www.filmloop.com	\$7,000,000	ComVentures, Globespan Capital Partners	Digital image sharing software
Flipt	Palo Alto	www.flipt.com	\$5,000,000	New Enterprise Associates, Sequoia Capital	Mobile social networking services
Business services					
Ad Infuse	Menlo Park	www.adinfuse.com	\$5,000,000	ComVentures, Storm Ventures	Advertising services to mobile devices
Presto Services	Mountain View	www.presto.com	\$10,000,000	Kleiner Perkins Caufield & Byers, Clearstone Venture Partners	Digital content delivery and conversion services
Double Fusion	San Francisco	www.doublefusion.com	\$5,020,000	JVP, Accel Partners	Delivery of ad campaigns in and around video games
Delivery Agent	San Francisco	www.deliveryagent.com	\$11,000,000	Bessemer Venture Partners, Worldview Technology Partners, Cardinal Venture Capital	Interactive commerce services for the entertainment industry
Software					
AIRMEDIA	San Francisco	www.airmedia.com	\$2,000,000	Sierra Ventures	Multi-platform entertainment applications
BLAZE	San Mateo	www.blaze.com	\$1,980,000	EnerTech Capital, TL Ventures	Application software for mobile, multi-player gaming
VisualOn	Campbell	www.visualon.com	\$1,057,000	AsiaTech Management	Software designed to enable high-quality audio and video on mobile handsets

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