



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Les White

SUBJECT: National/International Messaging

DATE: June 6, 2007

REASON FOR SUPPLEMENTAL

Staff's response to the Mayor's June budget message regarding Global Fluency.

RECOMMENDATION

Reinstate \$150,000 in the FY2007-08 budget, using a portion of the Economic Incentive Fund, to support the continuation of the City's national/international messaging initiative, launched in December 2006.

BACKGROUND

Economic Strategy #14: Communicate a Compelling, Consistent Identity for San Jose

San Jose's Economic Strategy, grounded in significant research and business/community outreach, includes Strategic Initiative #14: "Communicate a Compelling, Consistent Community Identity for San Jose."

"San Jose would benefit economically from having a strong, clear image regionally, nationally, and internationally. Raising the visibility and stature of our community will help companies recruit and retain talent and investment in our area. It will also allow us to increase our community's influence with decision makers and opinion leaders outside our region. Working with our economic development partners, we should develop a collaborative approach to communicate consistently with target audiences."

Despite San Jose's significant record of innovation and achievement in both the public and private sector, research and experience have demonstrated repeatedly that otherwise well-informed decision makers and opinion leaders outside the immediate area do not know where or how large San Jose is, and they have limited knowledge of our community's characteristics and achievements. Raising San Jose's visibility and shaping San Jose's identity are essential to achieving important economic development goals, including increasing business investment, increasing talent attraction, increasing air service, increasing federal funding, increasing visitor/convention bookings, and increasing philanthropic support. The business community has consistently identified this problem in multiple focus groups, Council Study Sessions, and Business Appreciation interviews since 2003, and earlier.

With \$100,000 in funding from the Redevelopment Agency and \$100,000 from the FY2006-07 General Budget, the City launched its pilot initiative in early 2007:

- a) to shape a consistent, compelling external message that can be used nationally and internationally by the City and its partners
- b) to persistently promote and communicate to top thought leaders and executives significant accomplishments by getting them covered in regional, national and international print, broadcast and online media outlets.

This effort is designed to showcase the many ways in which San Jose is a world leader in technology, business, civic and cultural innovation through targeted discussions with editors, contributors and writers from leading business and news outlets around the world. The goal is to communicate a clear, positive impression of San Jose to a number of target audiences, including: business leaders and other private-sector decision makers; government and opinion leaders in Washington DC and Sacramento; the global talent pool for our driving and emerging industries; and state, national, and international media who in turn influence the general public. (See Attachment C – “Innovation is the Way in San Jose”)

Central to this effort is engaging a specialist public relations firm with national/international scope to help hone key messages and secure story placement in national/international media. City staff do not have the media contacts or time capacity to do this work in-house. Staff has invested a significant amount of effort over a 12-month period to manage the national RFP process and select the PR specialist: Global Fluency, based in Palo Alto. Work began in January of 2007.

While other city-regions spend millions of dollars annually on national/international PR and advertising, including San Francisco at \$1 million, San Diego at \$5 million, Washington, D.C. at \$10 million and Las Vegas at \$60 million, the initial investment in this pilot effort was \$200,000 for December 2006-November 2007.

ANALYSIS

Accomplishments and Achievements Since January 2007

Despite this relatively low level of investment, the National/International Messaging effort has achieved impressive results since its launch in January of 2007.

#1 Private-Sector Commitment

More than twenty corporate Chief Marketing Officers have volunteered to partner with San Jose to advance its external messaging effort by serving on an advisory committee. The first meeting is scheduled for Friday, June 8. Participants are senior executives from companies like Adobe, Cisco, Smith-Barney, and Deloitte as well as senior leaders of key institutions like SJSU, San Jose/Silicon Valley Chamber of Commerce, 1st ACT, and the San Jose Convention and Visitors' Bureau.

#2 Stories Placed January-June 2007

Coverage (See Attachment A):

- Wall Street Journal,(5/25/07) *San Jose Aims To Be Home Of 'Clean Technology'* (circ: 2,062,000)
- Asian Enterprise Magazine, byline article by Kim Walesh (content developed by GlobalFluency) (circ: 40,000 + bonus distribution at national meetings)
- Business 2.0, clean tech story in Green Wombat column (circ: 777,000)
- The Economist (circ: 600,000)
- San Jose Mercury News, Venture Vitality story, (3/26/07) (circ: 229,000)
- The Deal.com, Venture Vitality report (3/26/07) (circ: 103,000)
- Silicon Valley Business Journal, Venture Vitality report (3/26/07) (circ: 12,000)
- MSN Money, Venture Vitality Report (3/26/07) (circ: 5,063,000)
- KQED-FM, Venture Vitality Report (3/26/07) (circ: 745,000)
- New York Times, Venture Vitality Report (3/28/07) (circ: 12,643,000)
- Wall Street Journal Radio, Venture Vitality Report (listener base: 2,121,000)
- Fortune Small Business, Catalyst Fund formation (4/11/07) (circ: 1,009,000)
- Prevention Magazine, San Jose ranked in walking city list (circ: 11,000,000)
- Women's Wear Daily, San Jose's retail market (5/2/07) (circ: 163,000)

Total audience/readership opportunity: 56,580,000. This figure reflects print circulation audience. Given that these media outlets also have an online presence, the audience reach is far greater.

Example of Success Ramifications: Wall Street Journal Article on CleanTech

- Above-the-fold article in the Marketplace section, online and online video interview of Paul Krutko, highlighted San Jose's efforts to become the 'home of Clean Technology'
- Story generated significant economic development (and revenue opportunities) for the city:
 - Lead Carnegie Mellon to contact the City to inquire about opportunities to create 'CleanTech Business Park' in San Jose—a potential half billion-dollar investment.
 - Inspired multiple stories in international media, specifically in Japan and Germany—the two leading nations in developing CleanTech.
 - Encouraged CleanTech companies that are looking to grow to make San Jose their locational preference (several firms have already contacted OED in the past week)

June 6, 2006

Subject: NATIONAL/INTERNATIONAL MESSAGING

Page 4

The Venture Vitality Index (See Attachment B): Cooperative effort with VentureDeal and BPM Forum to analyze and communicate venture capital activity in San Jose; Coverage to date includes: TheDeal.com (print and online), San Jose Mercury News, Silicon Valley Business Journal, Wall Street Journal Radio, and KQED Radio.

Unfortunately, one story that City staff and Global Fluency assisted with (an *Economist* reporter was interested in writing about Downtown) turned out not to be favorable. Every attempt will be made to manage this risk, but—as with local media—City staff and PR specialists cannot ultimately control what reporters write.

#3 New Media Relationships Built and Stories in the Pipeline

GlobalFluency has had active, detailed discussions and information sharing with approximately 80 editors and reporters at leading publications and broadcast media. Initial contact and introductions via email to database of more than 1,000 journalists. Recent briefings include: Bloomberg, US News & World Report, Investors Business Daily, Fortune, USA Today, AP, American Venture Magazine, Time, Washington Post, Barron's, Business Week, Reuters', Fast Company, Red Herring, Le Devoir, National Association of Hispanic Journalists.

#4 "Inspired in San Jose" Public-Private Campaign

Inspired in San Jose will be a multi-level marketing and promotion campaign designed to raise national and international awareness of the City of San Jose as a hub of innovation and creativity. The program will consist of three distinct programs, each linking to one another to create a fresh and positive communications & advocacy outlet for the city. GlobalFluency has developed a framework for the scope of this project that will include a rich, content-filled web portal, a new Inspired in San Jose seal that local companies will feature on products, websites and corporate collateral materials, and a series of thought leadership initiatives that will keep San Jose positioned as a leader in innovation, creativity and inspiration. The program will seek to celebrate San Jose Inspired innovation in all of its forms and will further partnerships with SJSU, the San Jose Convention & Visitors' Bureau, The BioCenter, and other groups.

#5 Research Completed on Current Perceptions of San Jose

The Brand San Jose Survey: GlobalFluency launched a brand perception survey of San Jose based marketers, communications professionals and regional executives to uncover the city's brand persona.

CONCLUSION

The City is five months into a pilot effort whose importance has been communicated by the business community since the creation of the Economic Strategy in 2003, and well before.

HONORABLE MAYOR AND CITY COUNCIL

June 6, 2006

Subject: NATIONAL/INTERNATIONAL MESSAGING

Page 5

Significant achievements have occurred already in the last five months, and significant staff efforts have been invested to get this program and capacity in place. High-level private sector and institutional leaders are on board as partners.

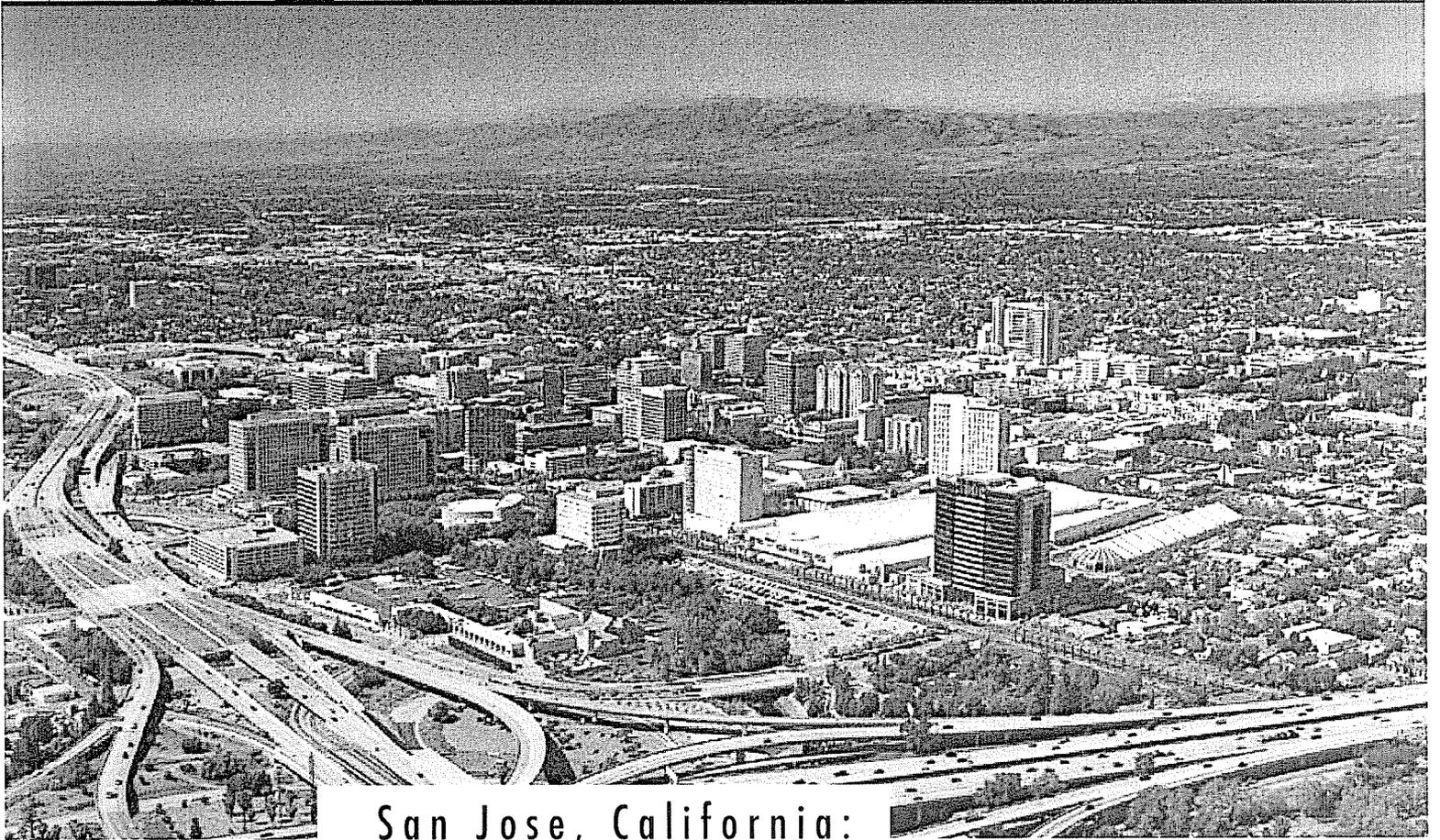
Even as we work to improve our community, we have ample positive accomplishments, exciting innovations, and distinctive community features to communicate to the nation and world.

My strong recommendation is that the Council reinstate \$150,000 in the FY2007-08 budget from the Economic Incentive Fund to continue this effort into its second year (FY 07-08) with a) regular reporting on results to the Community and Economic Development committee and b) stepped up exploration of private-sector partnership and funding of this effort.



Les White
City Manager

ATTACHMENT A



San Jose, California:

The Capitol of the Silicon Valley & The Heart Behind Global “Brain Circulation”

KIM WALES, ASSISTANT DIRECTOR
Economic and Cultural Development, City of San Jose

Anna Lee Saxenian wrote that “thanks to ‘brain circulation’, highly skilled immigration increasingly benefits both sides,” the country sending the entrepreneur and the country receiving the talent. If this level of intellectual development and developmental prowess that is fueling the world economy is tantamount to the circulation of thought and innovation in the brain, I would argue that the City of San Jose is the heart of that innovation movement, pumping the creativity, innovation and inspiration through this brain coil known as the Silicon Valley and pushing it throughout the rest of the world.

San Jose has long been associated with booming innovation, entrepreneurship, growth and vitality. It is a city of firsts: The first incorporated city in California, the first capital of California, even the first city to elect an Asian mayor in a major city as Norman Mineta was elected to the post in 1971. Now, San Jose looks to be recognized as one of the first major metropolitan regions to capitalize on this brain circulation phenomenon.

San Jose is arguably the most diverse large city in the United States. While some regions might struggle with this changing face of populations, San Jose chooses to embrace its position as the modern model for the modern American melting pot: openly encouraging and welcoming innovation, creativity and talent from Boston to Beijing into an economically diverse and success driven environment. Today, as debates and discussions continue about the changing face



Norman Mineta

of America, San Jose, the nation's tenth largest city, offers a compelling example of how international diversity can be a powerful catalyst for economic and cultural growth.

This "plug-and-play" cultural atmosphere is never more important and evident than in the influx and success of San Jose's Asian community. With 38 percent of the city's population being foreign-born, San Jose is tied with Los Angeles and second only to Miami in foreign population, yet the diversity of San Jose's immigrant population is far broader than any other city. The city's Asian makeup includes representation from Vietnam (13.9%), China (13.8%), India (11.4%), and other Asian countries (20.7%) with the region's Vietnamese population being the largest concentration outside of Vietnam. Overall, San Jose residents speak over 52 languages, turning common community meetings into what appears to be meetings of the United Nations – complete with simultaneous headset translations.

San Jose is a city that is not satisfied to tuck away ethnic communities into boroughs – in fact, San Jose ranks number one in the nation in the integration of immigrant populations based on where people live. Indeed, many international

entrepreneurs say one of the major reasons they choose to live in San Jose is because it is the one place in the U.S. they can live without feeling like a foreigner.

However, the greatest testament to the ethnic makeup of San Jose are the economic indicators also strongly point to the benefits of a truly international city, as Asian entrepreneurs and the influx of a highly educated and talented workforce play an impressive role in the region's economic vitality and innovation capacity. In the year 2000 alone, companies led by Indian and Chinese engineering executives accounted for more than \$19.5 billion in sales and 72,839 jobs, accounting for nearly 16% of the 2000 employment base.

A recent survey by the BPM Forum showed that among 64 San Jose technology companies receiving venture capital in 2006, a minimum of 65 percent had at least one, and typically more than one, foreign-born executive on the management team. To fuel this international economic engine, more than half of all Silicon Valley science and engineering workers are now foreign-born with much of this specialized talent pool having graduated of the internationally ranked San Jose State University engineering program.

As the influx of Asian entrepreneurs grew and developed over the past decade, the need for an organization that would allow companies from around the world to easily access and thrive in the region became evident. San Jose has made significant investment in the creation of the internationally recognized global business incubator, the US Market Access Center, to facilitate international collaboration among foreign and local businesses, associations, governments and academic institutions.

The center is designed to serve as a trade gateway between the US and the world, facilitating economic circulation if you will. The program offers expert consultation services to facilitate and assist in market entry, as well as providing turnkey office solutions to aid in quick market entry and transition to long-term success. Of the 29 companies that current use the center's facilities as an office, 15 are Asian-based companies that are high yield, high growth firms looking to quickly penetrate the US market.

ICOVER STORY



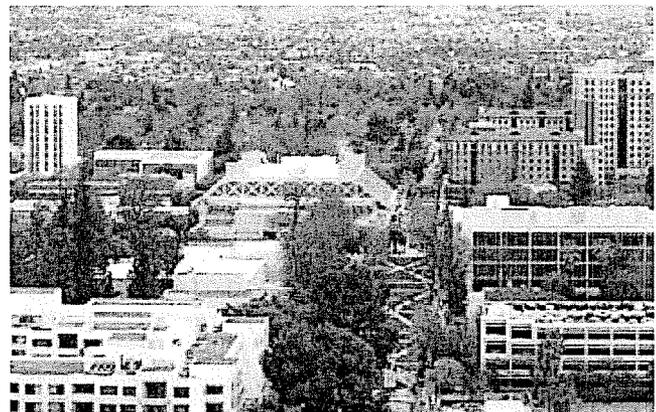
Martin Luther King Jr. Library, San Jose State University

To further aid in the assimilation and integration of Asian talent and entrepreneurs into the region, San Jose has actively forged close ties with a wide range of leading entrepreneurial organizations. There are numerous San Jose based groups that specifically serve Asian entrepreneurs, and serve as a vital link between cultural and enterprise, including the Japanese American Chamber, Chinese American Chamber, Filipino American Chamber, Vietnamese Chamber, the Hua Yuan Science & Technology Association, Korea IT Network Silicon Valley, the Indus Entrepreneurs, TiE, Monte Jade and the Vietnamese Silicon Valley Network. These cross cultural business organization provide reciprocal and valuable support as these organizations provide business as well as social support. These associations network its foreign members within the local technology community, sponsor seminars on communications, negotiation and stress management, even facilitate partnerships and serve as recruitment channels.

While the facilitation of business relationships is key to the ease of assimilation into the San Jose region, the city has also embraced a wide range international culture and artistic groups to better reflect the complexity of diversity of its residents. Be it events like VietREADS (featuring Vietnamese writers), the Vietnamese Tet Festival, the Chinese Summer Festival, the Filipino Heritage Festival, or simply the display of Asian art within the city's museums and public art installations, the City has made marked efforts to surround its residents with arts and culture reflective of their roots and cultural ties.

The influx of Asian entrepreneurs has not only dramatically changed the landscape of San Jose's economic and cultural environment, it has also heralded the need to invest in new housing developments to answer the desire for more urban and central living to the city's business center downtown. Five new high-rise condominium units are in development today to answer the need for an urban setting and reasonable housing that is nearby businesses, business partners and innovation centers, creating a vibrant and creative urban center. For the Asian community, these developments represent living spaces that are more reflective of high density business and residential regions in major metropolitan business centers throughout Asia, and represent an easily accessible living option for entrepreneurs and business owners seeking an urban home base in the US.

The unique competitive advantages of San Jose are sure to catalyze the brain circulation between the region and its Asian counterpart nations. The region presents unrivalled access to venture funding, highly skilled individuals and research institutions, entrepreneurial expertise in bringing ideas from conception to market, opportunities for synergies with other emerging innovations such as new Web 2.0 start-ups, and supportive government policies. However, San Jose serves as a model for other cities in the world that are striving to become international hubs of culture and innovation. It is more than a gateway to the US market, but an example of how the depth and breath of Asian assimilation and brain circulation has sparked a new era of business success. Call it plug-and-play or call it a second home, San Jose is amply suited and prepared to welcome talent from around the globe.



Paseo de San Carlos, San Jose State University



San Jose Aims to Be Home Of 'Clean Technology'

By PUI-WING TAM and JIM CARLTON

SAN JOSE, CALIF. -- When solar-power-technology company Nanosolar Inc. was deciding last year where to put a new manufacturing facility, the Palo Alto, Calif., firm was courted by cities world-wide. But its most aggressive suitor was the nearby town of San Jose.

San Jose officials promised Nanosolar not only expedited business permits, as other cities did, but offered a \$1.5 million grant and said it would help to retrain local workers in skills needed at the new plant. San Jose officials served as property brokers, identifying vacant industrial parks and showing Nanosolar executives around to spare the company the cost of a real-estate agent. During the months-long courtship, city officials met with Nanosolar executives more than a half-dozen times.

The big attraction? Nanosolar is part of the "clean tech" sector, which many see as a successor to high tech in driving growth in the coming years. While classic high-tech companies made computer servers, chips and PCs, many companies involved in clean tech -- often small start-ups -- focus on making alternative energy sources, such as solar panels, and products aimed at improving energy efficiency, like software that helps monitor water use.

San Jose, considered the capital of Silicon Valley as home to high-tech bellwethers such as Cisco Systems Inc., eBay Inc. and Adobe Inc., is trying to reinvent itself as a center for clean tech -- and in the process is providing a glimpse of where the Silicon Valley economy may evolve next. While the region has long been a cradle for high tech, the area has in the past 18 months become fixated on investing in clean-tech companies. In 2006, North American venture-capital investment in this sector soared to \$2.9 billion from \$1.6 billion a year earlier, according to the Cleantech Venture Network, an industry group.

In December, Nanosolar announced it would take a 647,000-square-foot building in San Jose. The facility, which will create at least 200 new jobs, is set to open later this year. "We looked at virtually every city and had the mayors of every city calling us, but San Jose is shaping up as one of hottest spots for clean tech," says Martin Roscheisen, chief

executive of Nanosolar, which has raised \$100 million in venture capital and counts Google Inc. founders Sergey Brin and Larry Page among its backers.

San Jose wants a piece of this action because it needs to diversify its economic base, which has been reliant on companies that make traditional technology like software, routers and servers. That dependence hit the city of 954,000 hard during the tech bust earlier this decade. At the time, about one out of every 10 jobs in San Jose disappeared. Its tax revenues fell 27% during the 2002-2003 tax year. "The bursting of the dot-com bubble was a significant wake-up call," says Paul Krutko, San Jose's chief development officer, who calls the city's clean-tech push "one of our highest priorities."

But Silicon Valley's largest city faces plenty of competition -- and hurdles -- in trying to establish itself as a clean-tech destination. Besides Silicon Valley neighbors such as Santa Clara and Sunnyvale, big cities further afield including Austin, Texas, and Sacramento, Calif., are pursuing similar strategies. These are a particular challenge to San Jose, as it is more costly to do business in Silicon Valley than elsewhere in the nation. In 2006, wages in San Jose averaged \$66,200, nearly twice the national average of \$37,870, according to the Bureau of Labor Statistics and the California Employment Development Department.

Austin, for one, claims it already has the lead in clean tech. The Texas capital, which says it is home to more than 50 clean-tech companies, was recently ranked as having the most friendly conditions in the country for clean-tech companies by SustainLane, an independent research firm in San Francisco. San Jose was ranked second in the survey. "The edge Austin has over San Jose right now is the fact we have uniform support from the city, state and local utility," says Joel Serface, director of the Clean Energy Incubator, a nonprofit Austin group sponsored by the city of Austin, the state of Texas and the University of Texas.

San Jose officials acknowledge their push into clean tech is nascent but point to early successes such as the Nanosolar decision. Overall, the number of licensed businesses in San Jose involved in researching or producing clean tech jumped 83% last year to 22 firms, city officials say.

San Jose officials say they can draw from the overall clean-tech ferment in Silicon Valley, where local venture capitalists including Kleiner Perkins Caufield & Byers partner John Doerr are investing in local clean-tech firms. Warren Karlenzig, chief strategy officer for SustainLane, adds that "San Jose has a huge advantage because they've got [universities] Stanford and Berkeley nearby and there are a lot of companies with a lot of personnel in Silicon Valley."

To attract clean-tech firms, San Jose is pursuing a two-pronged strategy: Stoking local demand for clean-tech products and crafting economic incentives. In 2005, the city launched a fund to invest in local fast-growing tech companies, including clean-tech

firms. In August, San Jose's economic-development agency hired a staffer dedicated to the clean-tech industry, who in June will present a tax-break plan to lure such companies into the city.

To spur demand for clean-tech products, San Jose in March adopted a "green" building policy requiring new municipal buildings to be water- and energy-efficient. In October, it launched an Electronic Transportation Development Center to promote vehicles such as buses using clean and renewable energy.

Policies such as free downtown parking for those with hybrid or electric vehicles bought in the city were a major attraction for Fat Spaniel Technologies Inc., a San Jose company that makes products to measure and monitor energy consumption, says company president Chris Beekhuis.

Still, San Jose can't yet claim to be a clean-tech capital. In late 2005, Miasole Inc., a maker of solar cells, left San Jose for nearby Santa Clara, where the company calculated lower electricity rates could cut nearly a third of its monthly \$15,000 electric bill. NuEdison Inc., a four-person clean-tech start-up in San Jose that is considering where it should expand, says it has been wooed more assiduously by Sacramento and Marina, Calif., than San Jose.

San Jose-based solar-panel and cell maker SunPower Corp. says it plans to nearly double its 300-person work force in the city by the end of this year. As the company also considers other cities in further expansion plans, CEO Thomas Werner says San Jose is one of its most ardent suitors. The city's new mayor, Chuck Reed, paid a visit to SunPower after his election in November. In a speech in March, he proposed showcasing local solar technologies by installing solar-power panels on city buildings. "The tone at the top is very favorable," Mr. Werner says. "He totally gets it."

Write to Pui-Wing Tam at pui-wing.tam@wsj.com and Jim Carlton at jim.carlton@wsj.com

Green Wombat By Todd Woody

February 05, 2007

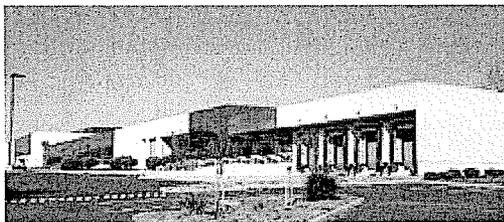
San Jose Goes Green to Lure Clean Tech Companies



originally

uploaded by victor solanoy

San Jose bills itself as the capital of Silicon Valley. Now the California city is making a bid to become a green tech hub by selling itself as a startup friendly town that has embraced sustainability. Home to Adobe, (ADBE), Cisco Systems (CSCO), eBay (EBAY) and other tech giants, San Jose in December scored its first big green tech player when Nanosolar agreed to build the world's largest solar cell manufacturing plants in the city. (Showing its commitment to tech recycling, the Nanosolar plant, shown at right, is the site of a former Cisco manufacturing facility.)



Green Wombat recently talked to Paul Krutko, director of the San Jose Office of Economic Development, about the competition to lure renewable energy companies and other green firms. San Jose, of course, starts out with a few advantages over, say, Austin, Boston or Bangalore. The valley boasts a well-

educated, tech savvy workforce and the capital of venture capital is but a short Beemer ride away, as are the idea factories at Stanford and the University of California, Berkeley. The downsides are the region's \$700,000-for-a-tract-home housing market and not-so-green clogged highways. "We are very focused on how we can leverage our assets as a center of innovation in the United States," says Krutko. "We're trying to forge a cluster of companies and institutions that are actively advancing clean technologies."

But Krutko says when competing for clean tech companies, cities need to show their green cred as well as the green startups will save in the form of tax breaks and other financial incentives. So San Jose touts its green building initiatives - it opened the world's first LEED (Leadership in Environmental Design) certified public library - and



...cites local companies' efforts to fight global warming. Software maker Adobe's downtown San Jose headquarters, for instance, has been rated the greenest corporate building (photo by twisesq at left) in the United States. And it probably doesn't hurt that Al Gore drops in now and again to meet with area tech leaders. Green tech companies, says Krutko, are "looking at communities that have an approach to sustainability. It is very much a competitive advantage in having a community that really gets it in dealing with the global issues we're facing in terms of climate change and global warming." A point validated last week by oil company BP (BP) when it chose to locate a \$500 million biofuels research center at UC Berkeley, in part, because of California's leading-edge efforts to fight global warming.

To lure Nanosolar, which has bankrolled \$100 million in venture capital funding, San Jose officials offered \$1.5 million in tax breaks and other incentives. "The state of Nevada and the state of Arizona were attempting to lure this facility with large amounts of public money," Krutko says. To fend off out-of-state competition - as well as other Silicon Valley cities - San Jose has taken a venture capital approach and invested in a

Pacific Community Ventures fund that will finance local companies. Krutko says San Jose is also streamlining the permitting process and changing development regulations as green tech startups move into office parks and tilt-ups - those sprawling one-story buildings that were occupied by first-and-second generation tech companies. "The currency in the valley is not about what you do with tax incentives or a grant," Krutko notes. "Our currency is really about time to market. Market entitlements and the ability for a company to find space and quickly occupy that space and move forward."

http://blogs.business2.com/greenwombat/2007/02/san_jose.html

The Deal.com

San Jose's Venture Vitality

by George White Posted 07:56 EST, 26, Mar 2007

"Do you know the way to San Jose?"

Venture-backed startups do and have increasingly been making San Jose, Calif. - the third largest city in California - their home in greater numbers, according to a new report - "Venture Vitality of San Jose" - released Monday, March 26, by the BPM Forum and VentureDeal.

The paper highlights San Jose's pivotal position in the rising tide of venture capital deals seen last year throughout Silicon Valley and the nation. The city was home to 64 companies that received \$616.4 million in venture money in 2006, compared with 57 startups getting \$483.6 million in 2005.

Venture capital investment in San Jose-based companies rose 27.4% last year, according to the Venture Vitality report; compared with a 12% increase nationwide and 15% in Silicon Valley.

Overall venture capital investment for 2006 came in at \$25.5 billion through 3,416 deals, according to the MoneyTree Report by PricewaterhouseCoopers and the National Venture Capital Association, based on data from Thomson Financial.

According to VCDeal.com the largest venture capital deals for San Jose-based companies in 2006 were a \$50 million round for optical components maker NeoPhotonics Corp. and a \$32 million funding for semiconductor test technology maker NanoNexus Inc.

Mindful of the benefits that San Jose accrues from its spot as the largest city in Silicon Valley, San Jose has gone out of its way to make itself fertile ground for new businesses to get off the ground.

"Cities don't create jobs, but cities certainly can create an environment where jobs don't happen," says Paul Krutko, Chief Development Officer of the San Jose Economic Development Agency. "The private sector creates the jobs but you need to have a facilitating environment that creates opportunities for capital investment."

"Cities have the potential to do a little bit of good, but they have the potential to do a lot of harm," he continued.

Venture capital investment has significant short-term and long-term implications for San Jose in terms of jobs, economic growth, development and taxes, says the report.

The survey indicates that "one million dollars in venture financing on average accounts for 7.5 high-paying direct jobs, plus an additional 16.5 indirect jobs resulting from a multiplier effect."

It went on to say that "venture capital backed companies often grow to become much larger contributors to the local economy, as represented by the large number of major private sector employers in Silicon Valley that started with the help of venture funding."

San Jose is a prime example of that as it is home to networking equipment maker Cisco Systems, Inc., the city's largest private sector employer with more than 13,000 local employees; as well as with online auction giant Ebay Inc. and software company Abode Systems Inc.

With technology companies such as vital part of its economy San Jose has been busy making the city even more attractive to venture-backed startups.

Pacific Community Ventures was recently chosen to manage an investment fund targeted at startups. San Jose contributed \$3 million to the vehicle, while Pacific Community Ventures contributed \$15 million.

The report also highlighted the key role that immigration plays in the Valley's technology economy, with "20% of all the H1-B Visas, or work permits, issued in the United States in 2006 were in Silicon Valley," the report said.

"There's a worldwide competition for talent that can make companies grow, people can live anywhere they want and participate in the knowledge economy," said Krutko.

Foreign-born entrepreneurs were particularly important to companies funded in San Jose in 2006. At least 65% of them have at least one, and typically more than one, foreign-born executive on the management team.

In order to encourage that trend, San Jose operates an incubator, the US Market Access Center that specializes in small to mid-sized technology and life science companies planning to expand their reach to the United States. The center has graduated 68 companies since it was founded in 1995.

Incubators are an important part of the city's plans to spur the formation of new companies in San Jose, says Krutko. In addition to the US Market Access Center, the city has a partnership with San Jose State University to operate its incubators for software, biotechnology, and environmental technology.

"Lots of communities set up incubators and try to foster company growth, the difference here is that [our] incubators really result in new companies," said Krutko. "You have the nurturing bed of the venture capital, serial entrepreneurs, and a business support infrastructure that understands how startups work."

Krutko went on to say that the software incubator has spawned about 100 companies and 3000 employees; and the city recently invested \$750,000 in buildout of a bioscience incubator.

"What we're trying to do is actually create the nurturing environment for the early stages of those companies," said Krutko. "It dovetails with our strategy that were about supporting small company growth rather than giving somebody a grant or tax incentive to lure some company here."

The Economist
Downtowns

Where the lights aren't bright
Mar 1st 2007 | LAS VEGAS AND SAN JOSE
From The Economist print edition

How two booming cities have tried, and failed, to revive their centres

YOU do not have to spend long in the company of a San Jose official before the old photographs come out. Chuck Reed, the mayor, has an aerial view of the city centre from the late 1970s on a wall in his office. Tom McEnery, who held the same post in the 1980s, has a bigger one showing several acres of empty lots. The point is to show how far the city has come in the past few decades. If downtown San Jose had really been transformed into the throbbing heart of Silicon Valley, though, it would not need old pictures to prove it.

Downtowns are an American invention, says Joel Kotkin, an expert on cities. London, Paris and Tokyo all lack a single centre where commerce, entertainment, shopping and political power are concentrated. Such cores did emerge in early 20th-century American cities thanks to steel-frame architecture, which made it possible to build high, and because they had central railway stations. Fifty years later, almost all were gutted by the internal-combustion engine, which enabled people and jobs to move to the suburbs. They have been trying to revive themselves ever since.

San Jose has attempted to create a commercial heart by selling city-owned land or even giving it away to developers. The city offers tax breaks and uses a portion of the property tax to pay for improvement projects. Since the late 1970s the redevelopment agency has shelled out \$2 billion, almost two-thirds of it on downtown. It has built museums and theatres to lure people to the centre. Trams have been supplied to entice them out of their cars.

Such largesse has indisputably made the middle of San Jose more appealing than it used to be. By any measure other than an historical one, though, the campaign has been a failure. The office vacancy rate in downtown stands at 21%—higher than it was four years ago, during the dotcom slump, and almost twice as high as the Silicon Valley average. The theatres, which were supposed to lift downtown, now depend on the council to bail them out of trouble. In a city of 912,000 people, just 30,000 passengers ride trams each day. All this in a wealthy metropolis that has higher house prices than anywhere else in America, according to the National Association of Realtors.

Despite its anaemic condition, most visitors to San Jose at least know where downtown is. That is not the case in Las Vegas. The historical centre, with its string of small casinos and its neon cowboy, once seemed glitzy. It is now a shadow of the Las Vegas Strip, which has grown dementedly since the late 1980s, building ever larger, more exuberant hotels. Despite offering better odds than their competitors, the downtown casinos took in \$630m last year, compared with \$6.7 billion on the Strip. And they are the brightest spots in the area. Beside them lie cheap motels, shuttered shops and bail bondsmen.

Local boosters now hope that high-rise apartments will bring life and money downtown. Perhaps, but not soon. A wobbly property market has shaken out several projects. The scale of development at present—120 condominiums built, with another 2,748 under construction or taking reservations—is small stuff in a metropolitan area that added more than 70,000 residents a year in the 1990s, most of them in the suburbs.

The only reliable way to bring people downtown is to force them. Las Vegas has put federal, county and city courts a few blocks to the south of the original Glitter Gulch, together with a jail. As a result, local offices are filled with lawyers. San Jose's council has moved downtown into a glass tower designed by Richard Meier. The building is striking, especially as it sits in a fundamentally low-rise area. A city official who needs spare parts for his car need walk only one block.

One of San Jose's obvious problems is that it must compete against San Francisco, which lies 48 miles (77km) to the north. Yet the strongest competition is local. Suburban shops exert such a strong allure that it is hard to persuade retailers to open downtown. Both Las Vegas and San Jose have tried to jump-start redevelopment by building shopping malls in the urban core; both attempts failed utterly.

Not so long ago, downtown shops could at least claim to offer an urban alternative to the strip malls and boxy stores dotted about the suburbs. No longer. Santana Row in San Jose is a shopping street with distinctive, French-accented architecture, art galleries, shops and pavement cafés, with some apartments mixed in. It is exactly the kind of urban environment that the downtown boosters say they want, but for two details. Santana Row is three miles from the city centre, and was built in 2002. This fake downtown, with ample parking and no homeless people, is doing so well that similar schemes are mooted elsewhere.

“San Jose needs to be more than just a nice, suburban community,” says Mr Reed, the mayor. But perhaps it does not. An unconvincing downtown has not

held down home-prices in San Jose, just as it has not arrested Las Vegas's extraordinary growth. All it has done is give officials a sense of inferiority.

Fortune Small Business/CNN Money

http://money.cnn.com/magazines/fsb/fsb_archive/2007/04/01/8403855/index.htm?postversion=2007041105

California city launches venture capital fund

San Jose has started its own VC fund to invest in local small businesses.

By Ian Mount, FSB Magazine contributor

April 11 2007: 5:57 AM EDT

(FSB Magazine) -- Can venture capitalists spark an entire city? San Jose is about to find out. In December the city launched a \$3 million venture capital fund to invest in local businesses.

The fund will be managed by Pacific Community Ventures (pacificcommunityventures.com), the investment arm of a nonprofit aimed at helping low-income California communities, and will target businesses with annual revenues of \$3 million to about \$15 million.

The idea, according to Jeff Ruster, deputy director of San Jose's Office of Economic Development (sjeconomy.com), is to create jobs and enhance the city's tax base, and make money in the bargain. "This isn't just about making a 16 to 20 percent profit, but also a social return on investment," he says.

PCV will put up \$5.70 - culled from its own funds and from other investors - for every dollar that San Jose invests. The city's fund will make ten to 12 investments of as much as \$500,000 each, says Eduardo Rallo, PCV's managing director. At presstime, San Jose was about to make its first investment.

SILICON VALLEY / SAN JOSE
Business Journal

Report: San Jose venture funding up 27% to \$616M in 2006

Monday, March 26, 2007

Venture funding in San Jose during 2006 totaled about \$616.4 million, up 27.4 percent from the previous year, according to a report released Monday.

The report, issued by **VentureDeal** and the **Business Performance Management Forum**, said that the nation's 10th largest city saw venture financing growth that was more than double the national average. Total VC financing was up 12 percent nationwide and 15 percent in Silicon Valley last year.

Of the 64 San Jose-based companies receiving funding, 25 were later stage companies, 21 were expansion stage, 13 were early stage, and five were start-ups.

In 2005, 57 San Jose-based companies received \$483.6 million in venture financing, according to the report.

The top three industries based on number of companies funded were software (25 companies receiving \$184 million), semiconductors (12 companies receiving \$97 million), and networking (8 companies receiving \$104 million).

The size of these financings ranged from \$83 million for **NeoPhotonics Corp.**, a supplier of optical networking components, and \$800,000 for **Attainia Inc.**, developers of capital budgeting and equipment planning software for the health care industry.

The average deal size was \$10.6 million.

VentureDeal is a Menlo Park-based online database that gives information about technology-related venture capital transactions and dealmakers in the United States and Israel.

The Business Performance Management Forum is a Palo Alto-based member organization that provides support to senior executives and practitioners representing enterprises with more than \$500 billion in combined annual revenues.

SiliconValley.com **More VC funding coming into San Jose**

By Constance Loizos
Mercury News

Venture funding in San Jose has long been overshadowed by the money raised by start-ups in other parts of Silicon Valley. But recent growth in VC money in San Jose has been much faster.

While venture funding grew throughout Silicon Valley by 15 percent last year, the amount of venture financing in San Jose shot up more than 27 percent, with 64 companies raising \$616 million, compared with the 57 companies that raised \$483 million in 2005, according to a new study to be published today by VentureDeal, a 6-month-old database firm in Menlo Park.

The numbers suggest San Jose's efforts to welcome and nurture more of the country's innovators are beginning to pay off.

“My sense is that in the last six months, there's been more activity locally,” said Jim Miller, a venture capitalist with 6-year-old VentureTech Alliance in San Jose, a firm focused on funding semiconductor companies.

Though VentureTech Alliance is among just a handful of venture firms in San Jose not affiliated with a corporation (think Adobe Ventures), Miller said he wouldn't want to be anywhere else, largely because VentureTech is close to the companies that interest it, and because even miles from Sand Hill Road, the firm sees “pretty good start-ups,” sometimes thanks to venture capitalists who wind up in San Jose attending the board meetings of companies in which they are investors.

Added Miller with a laugh, “I don't know what rents are up there, but I'm sure they're a lot more than here.”

Jim Ruster, deputy director for the San Jose office of Economic Development, is hopeful that several of San Jose's recent initiatives will attract even more venture capital, calling innovation a “pillar” of the city's overall economic strategy and future.

The city's most recent effort? Teaming up with Pacific Community Ventures, a non-profit that manages two for-profit funds. The two teamed up in December to find and entice cash-strapped but innovative start-ups to San Jose, including those outside traditional areas of venture funding, like moving companies and low-tech manufacturers.

No deals have been sewn up yet, but Pacific Community Ventures has agreed to invest 5.7 times the amount that the city wants to put toward each start-up. Because the city will invest up to \$3 million in each company, which could mean an overall investment of about \$18 million total, Pacific Community Ventures probably will syndicate bigger deals by reaching out to fellow venture firms and other financing sources.

As notable as how much money San Jose is attracting is what companies are getting it. According to VentureDeal, the three San Jose start-ups to receive the most funding last year were 12-year-old optical components maker Neophotonics, which raised \$83.5 million; 8-year-old routing- and switching-equipment maker Force10 Networks, which raised \$50 million; and 9-year-old storage company BlueArc.

All three are rumored to be lining up for initial public offerings soon, largely owing to the growth of online video and its accompanying demand for greater bandwidth and better access networks.

Whether they will remain to be seen, but it may be worth noting that several of San Jose's biggest employers and innovation leaders -- Cisco Systems, Adobe Systems and eBay -- were once privately held start-ups, too.

MSN/CNN Money

<http://news.moneycentral.msn.com/provider/providerarticle.aspx?Feed=ACBJ&Date=20070326&ID=6665683>

Report: San Jose venture funding up 27% to \$616M in 2006

March 26, 2006

Venture funding in San Jose during 2006 totaled about \$616.4 million, up 27.4 percent from the previous year, according to a report released Monday.

The report, issued by VentureDeal and the Business Performance Management Forum, said that the nation's 10th largest city saw venture financing growth that was more than double the national average. Total VC financing was up 12 percent nationwide and 15 percent in Silicon Valley last year.

Of the 64 San Jose-based companies receiving funding, 25 were later stage companies, 21 were expansion stage, 13 were early stage, and five were start-ups.

In 2005, 57 San Jose-based companies received \$483.6 million in venture financing, according to the report.

The top three industries based on number of companies funded were software (25 companies receiving \$184 million), semiconductors (12 companies receiving \$97 million), and networking (8 companies receiving \$104 million).

The size of these financings ranged from \$83 million for NeoPhotonics Corp., a supplier of optical networking components, and \$800,000 for Attainia Inc., developers of capital budgeting and equipment planning software for the health care industry.

The average deal size was \$10.6 million.

VentureDeal is a Menlo Park-based online database that gives information about technology-related venture capital transactions and dealmakers in the United States and Israel.

The Business Performance Management Forum is a Palo Alto-based member organization that provides support to senior executives and practitioners representing enterprises with more than \$500 billion in combined annual revenues.

New York Times

DealBook

V.C.'s Welcome in San Jose, Study Finds

March 28, 2007

<http://dealbook.blogs.nytimes.com/2007/03/28/vcs-welcome-in-san-jose-study-finds/>

Venture funding in San Jose, Calif., during 2006 totaled about \$616.4 million, up 27.4 percent from the previous year, according to a report released Monday. The report, from **VentureDeal** and the **Business Performance Management Forum**, said San Jose's venture financing growth was more than double the national average.

Comparatively, in 2005, 57 San Jose-based companies received \$483.6 million in venture financing, the report said.

Based on the number of companies, the three industries receiving the most financing were software, semiconductors and networking with the average deal at \$10.6 million.

[Go to Article from The Silicon Valley/San Jose Business Journal »](#)

RETAIL GETTING REENERGIZED IN SILICON VALLEY

Joanna Ramey

1627 words

2 May 2007

Women's Wear Daily

10

English

Copyright 2007 Fairchild Publications, Inc. All Rights Reserved

Northern California's Silicon Valley is showing renewed economic vigor, and retailers have taken notice.

Six years after the dot-com bubble burst, three major malls are expanding or beefing up their tenant rosters as competition intensifies in the high-tech center. There also is heightened interest in retail space for freestanding stores of all types catering to the Silicon Valley luxury market and its geek-billionaire mystique.

The mall projects are:

A 240,000-square-foot expansion to the 1.4 million-square-foot outdoor Stanford Shopping Center in Palo Alto, which is owned by Stanford University and was leased four years ago to the Simon Property Group. There are 140 stores, and the anchors are Neiman Marcus, Nordstrom, Macy's, Macy's Men's Store and Bloomingdale's.

Valley Fair, which is located in the cities of Palo Alto and Santa Clara and was developed by Westfield Group, based in Australia, wants to add 560,000 square feet for 55 stores and two more anchors. The mall now has 1.4 million square feet, 244 stores and three anchors: Nordstrom, Macy's and Macy's Men's Store.

San Jose's Santana Row, an outdoor shopping-hotel-condo complex developed by Federal Realty, based in Rockville, Md., has become a magnet for young professionals who pack its restaurants and cafes. Santana Row has announced that Hennes & Mauritz signed a lease to open a 7,900-square-foot store this year, and BCBG Max Azria will expand. Santana Row, which has a Macy's, along with 70 stores and 550,000 square feet of retail space, opened in 2002 and competes directly with Valley Fair across Highway 280.

Silicon Valley - or the Santa Clara Valley - got its moniker more than 35 years ago because of the area's concentration of silicon chip manufacturers, which propelled high-tech growth. The valley, a one-hour drive south of San Francisco, has a population of 2.44 million, including 1 million who live in **San Jose**. The rest of the region is affluent suburban communities built on former almond, plum, pear and apricot orchards. The

valley is spread over 1,200 square miles between two mountain ranges at the southern tip of San Francisco Bay.

Most important to retailers, the region is headquarters to many of the world's most important technology companies, including Apple, eBay, Google, Yahoo, Intel and Hewlett-Packard. About one-third of the valley's 1.2 million workers are employed in high tech.

"All these high-end retailers want to come here; they look at the demographics and say, 'We have to have a presence,'" said Steve Sauter, senior broker in Palo Alto for real estate investment dealmaker Marcus & Millichap, based in Encino.

However, finding the right retail location is a challenge because of the lack of large parcels of land and/or big commercial buildings, as well as strict local zoning and land-use rules.

Communities are "struggling with the balance between maintaining...character and uniqueness and not just becoming a mall," said Dale Achabal, director of the Retail Management Institute at Santa Clara University in the heart of Silicon Valley.

The strongest indicator of the improved valley economy is recent job growth, said Doug Henton, an economist with Collaborative Economics in Mountain View, Calif., which prepared the 2007 Silicon Valley Index for Joint Venture, a network of local governments and businesses.

Last year, for the first time since the downturn of 2001-2002, more jobs were created in the valley than were lost - the net gain was 31,869. Employment also has become more diversified with growing fields such as bio-tech and environmental technologies.

The increase in employment is reflected in the rising referrals to designer fashion specialty retailer Wilkes-Bashford, said Serita Sangimino, general manager of the regional chain based in San Francisco. Wilkes-Bashford is where Apple chief Steve Jobs buys his trademark, long-sleeved Brunello Cucinelli T-shirts, which Sangimino said cost \$165 each at retail.

Even with the improved job creation, employment remains 220,000 below its peak in early 2001 at the height of the speculative Internet market, a deficit economist Henton said wasn't as big as it may seem. Federal employment figures don't take into account thousands of for-hire contractors and independent inventors in engineering and computer-related fields, he said.

Well-known valley innovators include twentysomethings Chad Hurley and Steven Chen, whose YouTube.com video-sharing start-up was bought last fall by Google - also the

product of entrepreneurs - for \$1.65 billion. There's also Mark Zuckerberg, who three years ago started the social-network Web site Facebook that has been valued at \$2 billion.

"There is a lot of money in the area," said Mario Belotti, an economics professor at Santa Clara University, adding that the frenzy of growth more than a decade ago has not been matched. "The economy is growing, but more or less at the same rate as the national economy. Even in terms of IPOs, there are no situations now where you find a company that goes public at \$12 and then at the end of the day sells for \$80."

However, pressures of supply and demand are apparent when it comes to the availability of retail space, according to Marcus & Millichap's 2007 National Retail Report. In the **San Jose**/Silicon Valley area, the retail vacancy rate this year is forecast at 2.8 percent, down from last year's 3 percent and 3.8 percent in 2005. By comparison, the Los Angeles retail vacancy rate this year is expected to decline to 6.8 percent, from last year's 7.1 percent and 8.1 percent in 2005.

In **San Jose**, there is such a dearth of shopping that city officials estimate \$2 billion a year is spent elsewhere on all consumer goods, including fashion.

"**San Jose** is 20 percent underretailed," said Nanci Klein, an economic development executive with the city, which is projected to add 400,000 residents by 2030.

"The challenge in **San Jose** has been adding significant-size parcels to the retail base," Klein said.

San Jose planners have been creative, she said. For example, space to build high-density, open-air shopping districts that include housing has been generated by recasting an old Palm Inc. corporate campus or a former General Electric nuclear reactor research center into mixed-use projects.

The region's median annual household income remains far higher than the national level and is a magnet for retailers. The valley's median income in 2005 was \$76,300, compared with \$46,326 for the U.S., according to the U.S. Census' latest figures. In early 2001, at the dot-com peak, the median Silicon Valley household income was \$83,000.

The income statistics don't reflect the recent wave of employees exercising their hefty stock options, like the \$2.6 billion in options that come due this year for some Google employees hired before 2004, when the Internet search engine went public.

Silicon Valley customers are increasingly diverse; 48 percent of the residents speak another language in addition to English, 23 percent are of Asian descent and 19 percent are Hispanic. Statewide, 42 percent of residents speak another language, and nationwide

the number is 19 percent, according to Joint Venture. In addition, 55 percent of the scientists and engineers in the valley are foreign born, compared with 20 percent nationally.

At Santana Row on a recent weekend evening, the valley's diversity was apparent as after-work shoppers strolled and diners filled restaurants. Young women were smartly dressed in jeans and trendy tunics, or short blazers. Men wore jeans and sport shirts and soft-looking leather loafers typical of the valley's casual fashion tone.

"The consumer in Silicon Valley is more a cross-shopper," said Fred Walters, general manager of Santana Row. "They'll buy a Gucci handbag and then shop at Anthropologie or Urban Outfitter. They are not head-to-toe one particular brand."

On a fashion note, economist Belotti observed, "They aren't into, 'Look, look, look at me,'" regardless of income.

However, Christine Campbell, a former technology marketing executive who now owns the women's fashion boutique Crimson Mim in Los Altos, has detected an evolution of fashion savvy. Previously, the attitude was, "If you're smart enough to start your own company, you don't have to dress up for other people," she said. "It was a question of credibility."

Campbell's 800-square-foot store is well-stocked with 100 lines, including shoes. For the valley's 100 degree-plus summer temperatures, popular sellers include \$295 ethereal peach silk sundresses with a leopard underlay by Claudette, based in Los Angeles. To wear to work, Campbell suggests a casual but crisp, \$165 blue-and-white striped blouse by Alara with bishop sleeves and ruching at the torso, paired with \$314 lightweight black wool trousers by Tibi and \$245 Rachel Comey bejeweled slides.

"People here are wealthy; they travel a lot," Campbell said. "They want something different, that's not all over the place."

That wealth keeps Valley Fair mall in the top five performing malls among Westfield's U.S. properties, said Randall Smith, Westfield's vice president for business development in the U.S.

As for Stanford Shopping Center, "There are clearly positive demographic trends in that market," said Rick Sokolov, president and chief operating officer of Simon Properties.

Since 2002, annual sales per square foot at the shopping center doubled to \$999, growth that Sokolov said had been achieved by adding higher-price tag retailers such as Louis Vuitton, Kate Spade and Burberry.

Additional Radio Coverage for Venture Vitality Index:

Wall Street Journal Radio Network- Interviewed San Jose Office of Economic Development executive Paul Krutko. Syndicated to 250 affiliates the week of March 26.

WSJ Radio Network Podcast – Hosted as feature podcast during the week of April 2.

KQED-FM- National Public Radio San Francisco - Aired interview with Don Jones of VentureDeal

The Best Walking Cities of 2007

See where your city stands on our annual rankings

by The Editors of *Prevention*

March 5, 2007

Walking is the most popular type of exercise, so this year we focused our Best Walking Cities list on ideal locations to head out for a heart-pumping walking workout. Tops on the list of what makes a place "fitness walker friendly" are safe streets, beautiful places to walk, mild weather, and good air quality.

Here are some of the specific criteria we used. Each criterion was weighted as heavy, medium or light in terms of importance.

- % of pop that walks for exercise
- Use of mass transit
- Parks per square mile
- Points of interest per square mile
- Avg winter/summer temperatures
- % of athletic shoe buyers



Rank	City	State
1	Madison	WI
2	Austin	TX
3	San Francisco	CA
4	Charlotte	NC
5	Seattle	WA
6	Henderson	NV
7	San Diego	CA
8	San Jose	CA
9	Chandler	AZ
10	Virginia Beach	VA

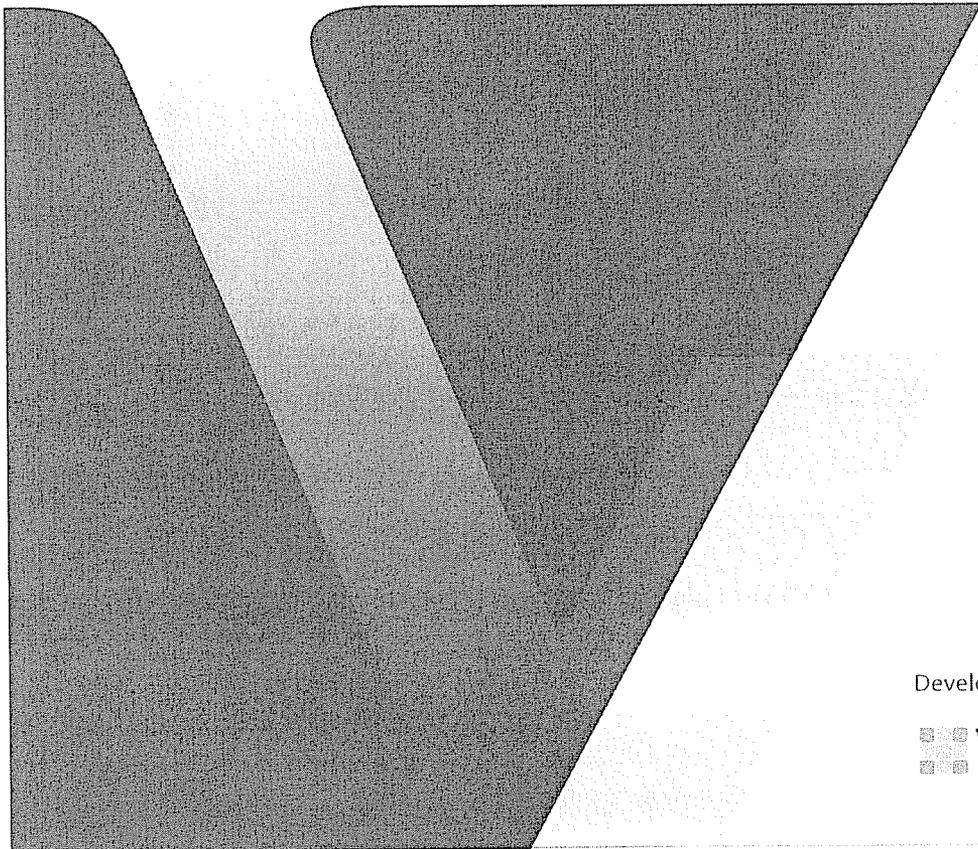
ATTACHMENT B



VentureVitality
I N D E X

San Jose VentureVitality Report

Innovation Leads the Way in Capital of Silicon Valley



Developed by

 **VentureDeal**
CONNECTED - INFORMED


www.bpmforum.org

INNOVATION LEADS THE WAY IN SAN JOSE

Technology innovation and venture financing have contributed mightily to job creation and economic growth throughout much of the United States, but nowhere more so than in Silicon Valley. Of the region's top 15 private sector employers, 14 are technology innovation companies, many of which were started with the help of venture capital. For San Jose, Silicon Valley's only major city, innovation and venture-funded business development also play a critical economic role. Cisco Systems, by far the city's largest private sector employer with more than 13,000 local employees, was founded in 1984 with the help of venture capital. Indeed, the City of San Jose's own belief in the economic power of innovation mixed with venture financing recently led the city to form its own joint venture for innovation-based financing. In December of 2006, San Jose became the nation's first city to partner with an investment management company, Pacific Community Ventures, to operate a strategic equity investment fund to support growth and expansion of small, innovative businesses.

The San Jose VentureVitality Index is developed with data and insight from VentureDeal, a leading provider of information and analysis on the venture capital industry. It provides a new metro perspective on the state of venture funding in San Jose, including a look at the

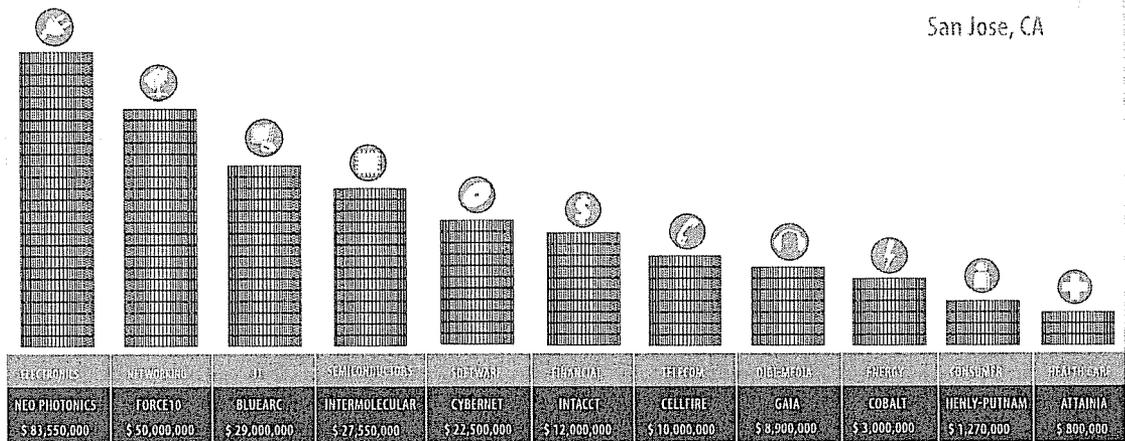
forces and factors impacting innovation-based financing there, as well as some of the unique advantages the city has in attracting and growing venture-funded companies.

The total value of VC financing in San Jose was up 27.4 percent in 2006.



Top Funded Companies By Industry (2006)

San Jose, CA



Like venture capital throughout Silicon Valley and the nation as a whole, financing increased in 2006. The total dollar amount of VC financing was up 27.4 percent in the City of San Jose, compared with a 12 percent increase nationwide and 15 percent throughout Silicon Valley. San Jose was home to 64 companies, across a wide range of technology sectors, which received a total disclosed funding of \$616.4 million in 2006. By comparison, 57 San Jose companies received \$483.6 million in 2005.

Level of VC Financing

NATIONWIDE:

2006	2005
\$25.5 billion +12% vs. 2005	\$22.7 billion
3,400 deals +10% vs. 2005	3,090 deals

SILICON VALLEY:

2006	2005
\$9.2 billion + 15% vs. 2005	\$8 billion
1,100 deals + 14% vs. 2005	960 deals

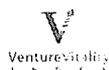
SAN JOSE:

2006	2005
\$616.4 million +27% vs. 2005	\$483.6 million
64 deals +12% vs. 2005	57 deals

Technology innovation and venture financing in San Jose is spread across a wide range of sectors. The top three sectors represented by these financings were software (25 companies received \$184 million), semiconductors (12 companies received \$97 million) and networking (8 companies received \$104 million). However, health care services, consumer technology, biotechnology, IT services and infrastructure, clean technology, digital media, and

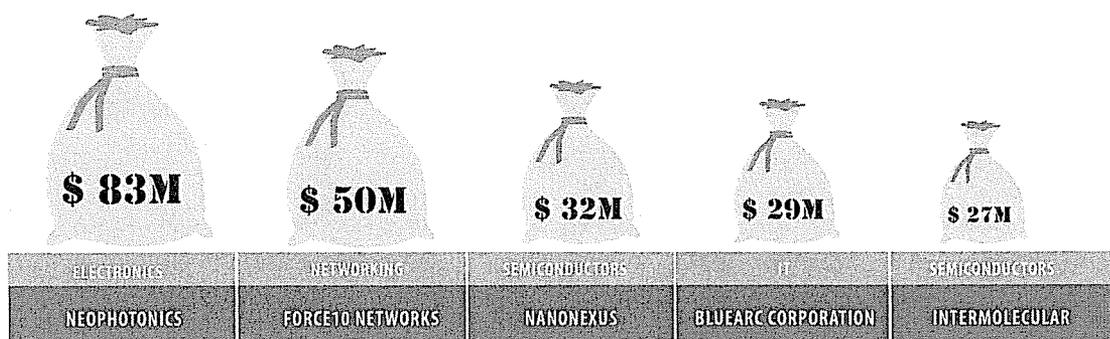
Each \$1 million in venture financing directly creates an estimated 7.5 high-paying jobs, plus another 16.5 indirect jobs through a multiplier effect.

financial services are all represented. In terms of the stage of companies participating in 2006 financings, 25 were later stage companies, 21 were expansion stage, 13 were early stage, and five were start-ups.



Top 5 Funded Companies (2006)

San Jose, CA



The increase in VC funding has significant short-term and long-term implications for San Jose in terms of jobs, economic growth, development and taxes. According to estimates by the Illinois Venture Capital Association, approximately 75 percent of venture funds are spent on salaries. One million dollars in venture financing on average accounts for 7.5 high-paying direct jobs, plus an additional 16.5 indirect jobs resulting from a multiplier effect. More importantly, of course, venture capital backed companies often grow to become much larger contributors to the local economy, as represented by the large number of major private sector employers in Silicon Valley that started with the help of venture funding. Venture capital backed companies employed more than 10 million American workers, including 2.5 million Californians, and generated more than \$1.8 trillion in sales, in 2003, according to the analyst firm, Global Insight, Inc.

UNIQUE ASPECTS OF SAN JOSE'S ECONOMY

As the nation's 10th largest city and metropolitan hub of Silicon Valley, San Jose has a variety of important advantages for innovation-based venture companies. While technology innovation and business development are now clearly a global phenomenon, Silicon Valley remains perhaps the leading global incubator. Indeed, 36 percent of all venture capital activity in the United States took place in Silicon Valley in 2006. The region's world-renowned critical mass in technology innovation companies, venture capital firms, related services, and skilled professionals continues to help develop and attract entrepreneurs, financing and talent to the region.

For San Jose specifically, the close proximity of major technology giants in semiconductors, networking, Web 2.0 and other sectors are a catalyst for many new business starts. The world's largest semiconductor company, Intel, is headquartered next-door in Santa Clara, and the world's largest network equipment company, Cisco, is headquartered in San Jose.

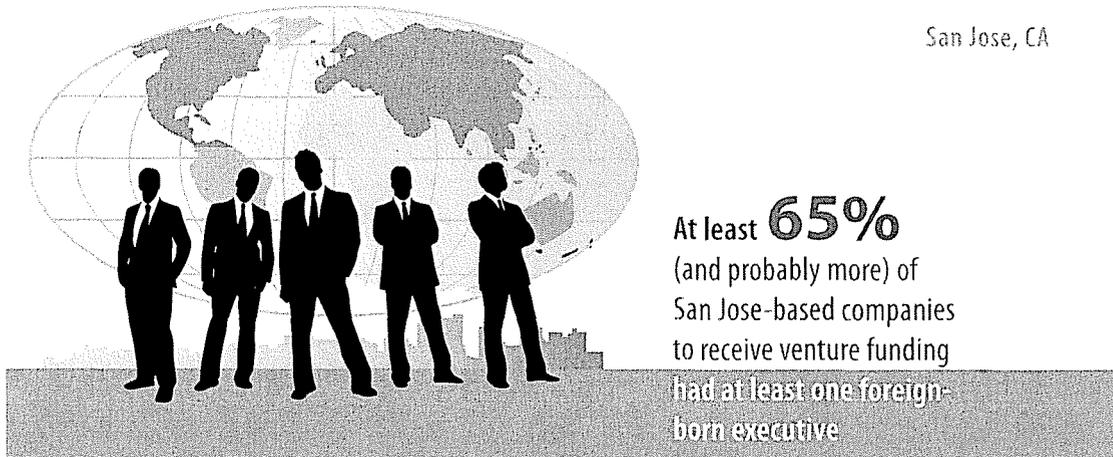
At least 65 percent, and probably more, of the San Jose-based companies to receive venture funding had a least one foreign-born executive.

Other well-known technology companies headquartered in San Jose include such heavyweights as eBay and Adobe Systems. These companies attract numerous smaller companies into their orbit to provide outsourced innovation. Additionally, they serve as breeding grounds to 'spin-out' talented managers to start the next generation of great innovation companies.



Funded Companies' Demographics (2006)

San Jose, CA



Immigrant entrepreneurs are also a major force in San Jose's innovation milieu. Fully 20 percent of all the H1-B Visas, or work permits, issued in the United States in 2006 were in Silicon Valley. San Jose itself is arguably the most internationally diverse major city in America. It has the third-highest percentage of foreign-born residents (38%), behind only Miami (58%) and Los Angeles (40%). However, the diversity of this immigrant population is much wider. The breakdown of its immigrant population is: Mexico (23%), Vietnam (13.9%), China (13.8%), India (11.4%), other Asian countries (20.7%), Europe (8.8%), other countries (8.5%). Over 100 languages and dialects are spoken in Santa Clara County.

Recent studies have demonstrated the profound impact of immigrant entrepreneurs and foreign-born talent on the U.S. economy, particularly in the technology sector. Of engineering & technology companies started in Silicon Valley between 1995 and 2005, 52.4 percent had at least one founder who was foreign-born. Those percentages are 25.3 percent for the U.S. as a whole and 38.8 percent for all of California. Likewise, foreign nationals were named as inventors or co-inventors in 24.2 percent of international patent applications filed in the U.S., according to the World Intellectual Property Organization. This does not include foreign-born immigrants who became U.S. citizens. By comparison, this percentage was only 7.3 percent as recently as 1998. By 2000, 53 percent of Silicon Valley's science and engineering workforce was foreign-born.

The critical importance of foreign-born entrepreneurs is highly evident among the companies funded in San Jose in 2006. A survey of those companies shows that a minimum of 65 percent, and probably more, have at least one, and typically more than one, foreign-born executive on the management team. This prevalence of immigrant founders and executives cuts across almost all industry sectors.

San Jose itself operates a range of programs and initiatives to support global integration and immigrant assimilation. For example, one of its most successful incubator initiatives is the US Market Access Center. Founded in 1995 as the International Business Incubator, the center specializes in cost-effective US market entry for small to mid-sized, high-growth technology and life science companies planning to expand their reach to the United States. The center has graduated 68 companies since it was founded.

The City of San Jose, in fact, has dedicated significant expertise and resources to developing a fertile environment for fostering entrepreneurship and innovation. The city's core economic development strategy is focused much more on new business formation and growth of existing companies than on attracting large corporations from outside of the city, according to Paul Krutko, Chief Development Officer, City of San Jose. San Jose is home to the largest new business incubator program in the nation. The City has helped develop and operate a variety of successful incubators and business clusters, as well as a unique investment fund, designed to support technology innovation and new business starts. In addition

to the US Market Access Center, these efforts include the Software Business Cluster, the Environmental Business Cluster, the San Jose BioCenter, and, most recently, the Catalyst Fund, the first investment fund co-funded and operated by a U.S. city.

To be sure, the city and region have their share of challenges when it comes to continued leadership in the global innovation economy: The growing competitiveness and critical mass of other innovation centers in the U.S. and worldwide, the area's high housing and land development prices, and continued off-shoring of business functions are among them. However, employee salaries in San Jose and the region are considerably higher than most other innovation centers, enabled by the fact that productivity by workers is approximately twice the national average.

In addition, San Jose is also at the forefront of a major refresh in urban planning to accommodate the next-generation needs of Silicon Valley, including the need for more affordable housing and higher density office and commercial space. For example, the city has laid the groundwork for a new type of development in key industrial areas of the city; these new areas will combine high-rise office space and higher density housing, along with entertainment and retail businesses and improved transportation. A key example is the North San Jose Vision 2030 plan, calling for an additional 26.7 million square feet of office space and up to 32,000 new homes.

Downtown development and vitalization is progressing: a leading software company, BEA Systems, has just announced it is moving its headquarters downtown, joining companies like Adobe, in anticipation of the continued rise of a vibrant urban center that can attract top talent and companies. In addition, high-rise home production is underway. Seven high-rises are currently under construction or are actively seeking a development permit, representing a total of 1,747 new downtown residences. Five more high-rise projects are in the early stage of planning. With a citywide office vacancy rate of approximately 11.5 percent, the city still has ample affordably priced office space (available at 1997 rates) to support growth.

SUMMARY CONCLUSION

The VentureVitality of the City of San Jose appears to be on the upswing, providing positive impetus for future job growth, economic development and transformation. While strongest in software, networking and semiconductors, venture funding of San Jose-based companies, incorporates a wide range of technology sectors. The city is leveraging its position as Silicon Valley's major metropolitan hub to create an environment that fosters and attracts new business starts, innovation and global talent – key ingredients in an innovation-based economy. At the same time, city officials are taking a leadership role in addressing some of the major challenges that San Jose and all of Silicon Valley face, if the region is to remain one the world's most vibrant innovation centers.

ATTACHMENT C

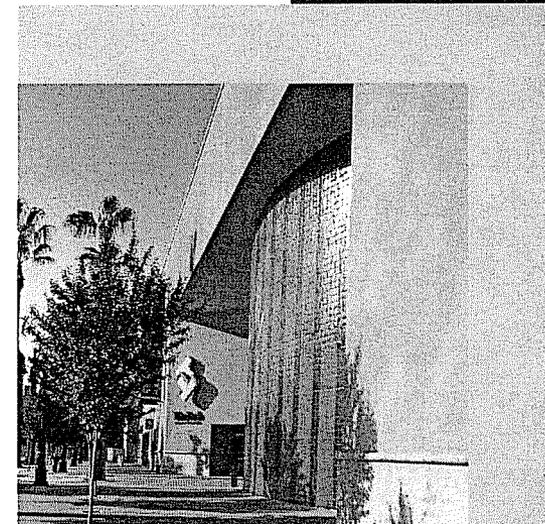
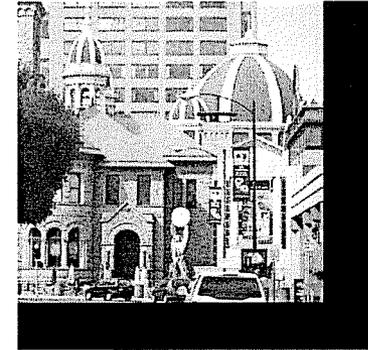


INNOVATION IS THE WAY in **San Jose**

Update on National & International
San Jose Communications Campaign

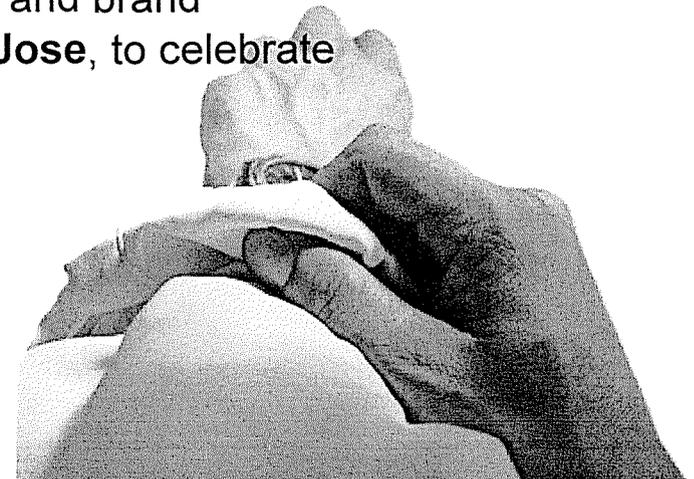
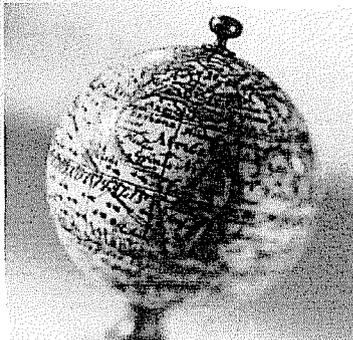
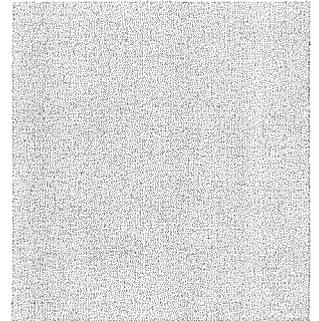
The Assignment

- Make San Jose a globally important news story.
- Define and elevate the city's brand and international appeal.
- Win recognition and endorsement as a major cultural and business hub
- Stimulate interest and business and economic development activity.
- Gain buy-in and support for San Jose and its efforts from leaders in the private, public and non-profits sectors.
- Drive positive, in-depth coverage across major media worldwide.



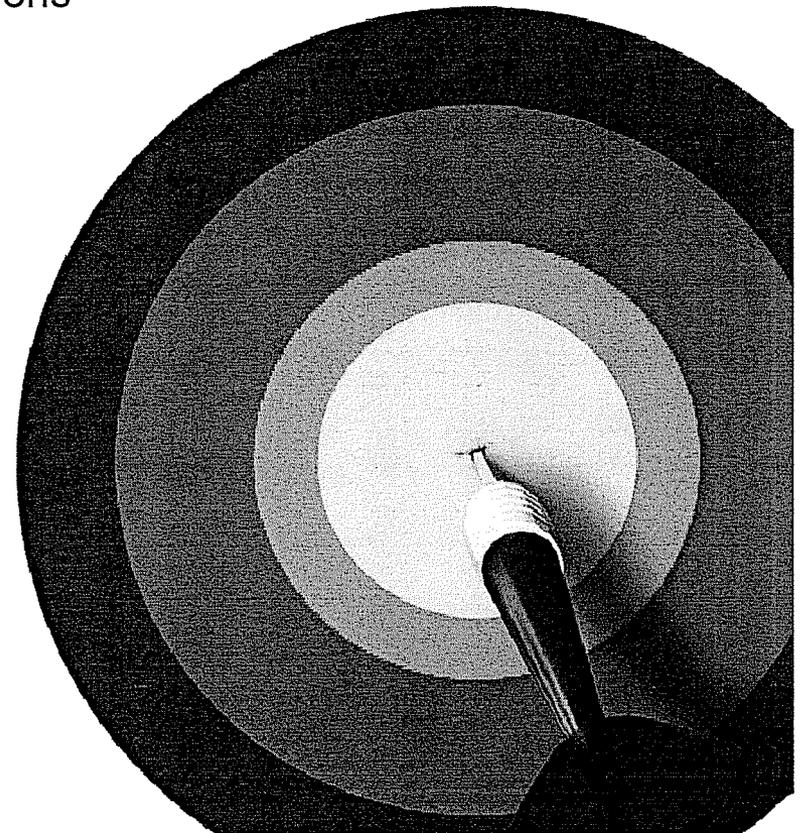
The Approach

- Operate a cohesive communications campaign supporting an umbrella theme of “innovation” in San Jose.
- Develop and promote distinctive story platforms that showcase innovation in government, business, technology, culture, community, etc.
- Orchestrate local news for optimal geographic coverage -- and become part of bigger national and international trends and news stories.
- Build close continuous relationships with key national and international journalists covering elements of the San Jose story.
- Assemble comprehensive database of facts, figures, anecdotes and insights to support journalists worldwide.
- Initiate a major public-private cooperative marketing and brand communications campaign, called **Inspired in San Jose**, to celebrate and promote innovation and inspiration in San Jose.



Key Goals – Year One

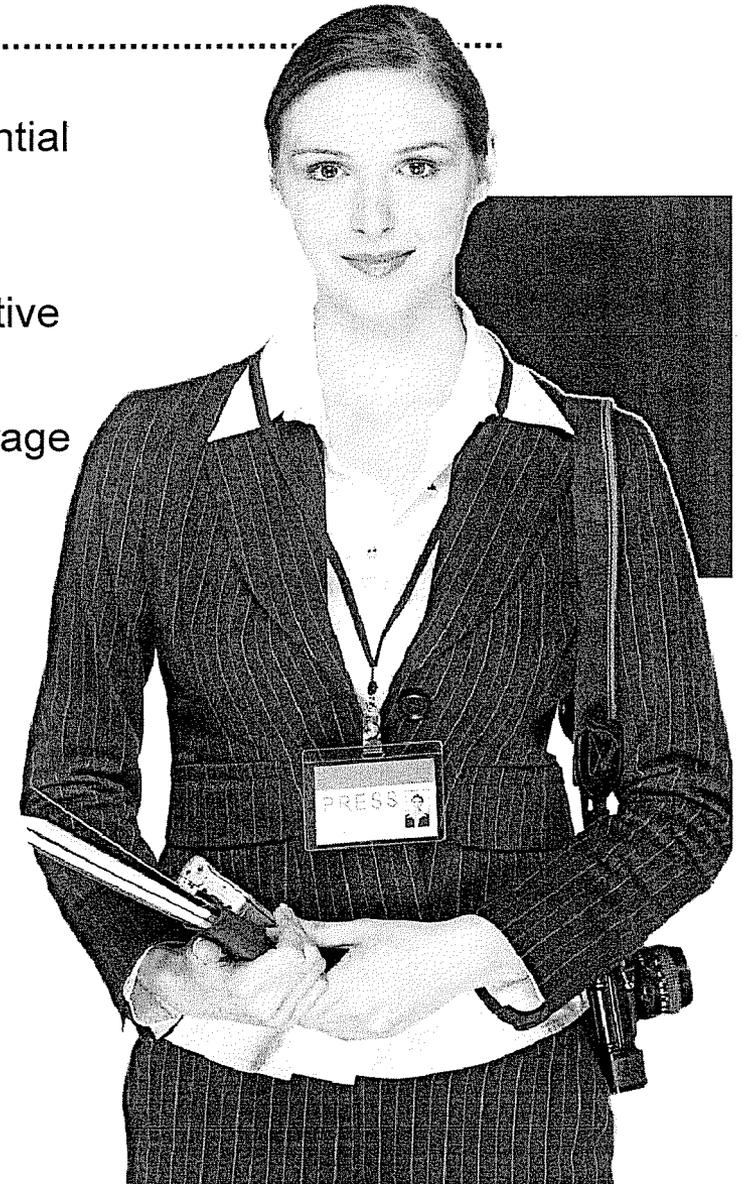
- Significantly increase awareness and knowledge among key national and international journalists.
- Place standalone articles and meaningful stories in 90% of the top U.S. national business and news media, and with a majority of key international publications with U.S. bureaus or coverage.
- Generate a minimum of 80 valued interviews and 70 million media impressions worldwide.
- Successfully launch **Inspired in San Jose** campaign with significant support from the business, public and nonprofit sectors.
- Gain substantial positive feedback from regional, national & international sources in business, government, investment and other areas about the city's communications efforts.



Initial Accomplishments

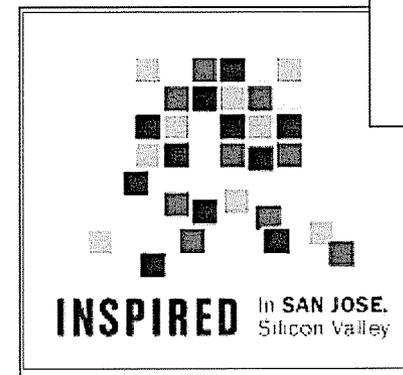
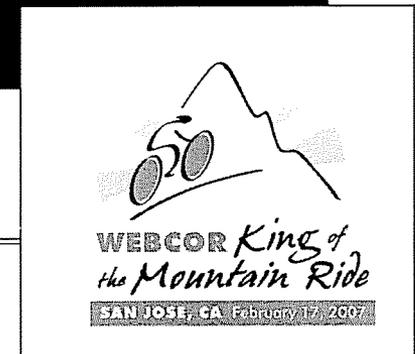
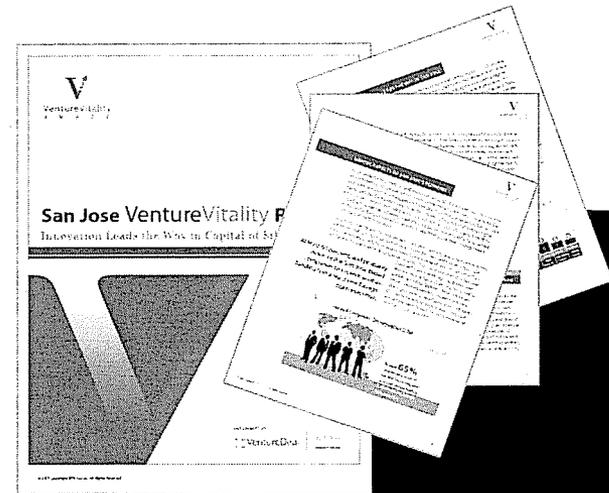
December 2006-March 2007

- Assembly of database of 1,050 relevant and influential editors and reporters worldwide.
- Outreach and engagement with approximately 80 targeted journalists and media outlets around creative story platforms and news announcements.
- Interviews, article placements and upcoming coverage in growing array of highly influential press and broadcast media.
- Fielding of the first Brand San Jose survey of marketing and communications professionals and other executives.



Initial Accomplishments (cont.)

- Development and release of the first San Jose VentureVitality Index report.
- Formation of a rich repository of data and insights about San Jose and its role as an innovation hub.
- Informational meetings and planning sessions with key city officials and civic leaders for messaging and story development.
- Creation of dozens of marketing and communications documents, including messaging, story platforms, fact sheets and pitch materials, for use in media outreach and interviews.
- Production of wide array of reports, creative materials, and graphics to support our campaigns, e.g. VentureVitality Index, King of the Mountain and Inspired in San Jose logos, web content and sell-in materials.

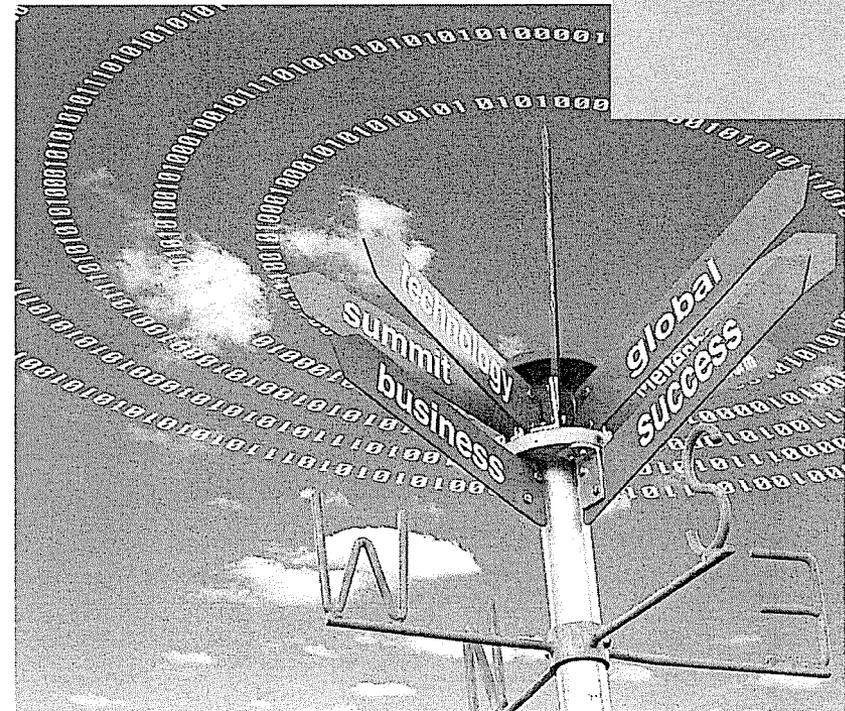
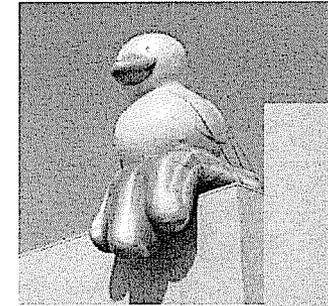


Sample Communications Messages

Innovation in San Jose

A 21st Century City That's Incubating the Future

Showcases San Jose's many incubator and high-growth business development initiatives. Underscores city's economic development strategy to create a community where innovation and new business starts thrive and multiply.



Sample Communications Messages

Innovation in San Jose

Thinking Globally. A City That Thrives on Immigrant-Powered Innovation.

Positions San Jose as America's most ethnically diverse major city and demonstrates the critical role foreign-born entrepreneurs and talent plays in new business starts and technology innovation. Highlights enlightened programs to support global integration and assimilation.

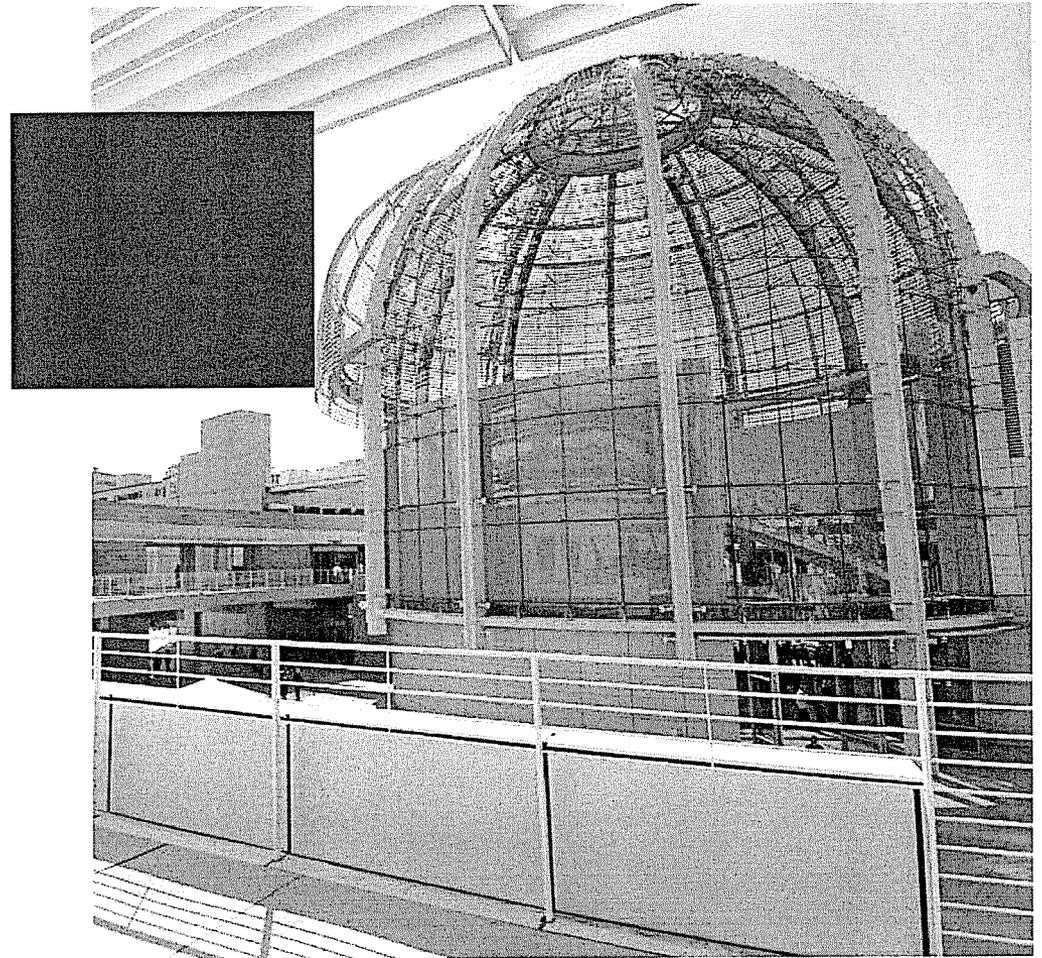


Sample Communications Messages

Innovation in San Jose

An Innovation Upturn Underway in San Jose

Speaks to a resurgence of economic growth and the important role new businesses and emerging technology sectors play in the city's economic development strategy.

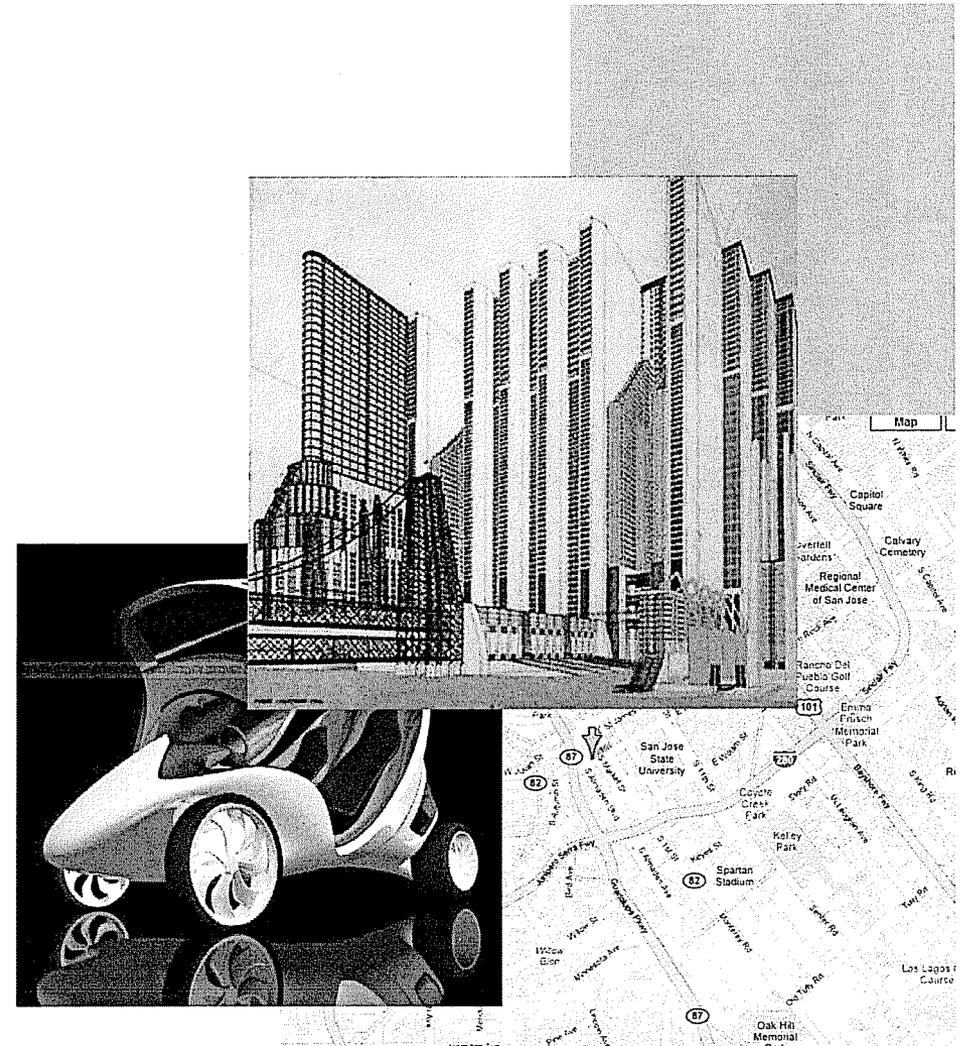


Sample Communications Messages

Innovation in San Jose

Building a City Center in Silicon Valley

Outlines the critical importance of “place” in attracting and retaining talent in the 21st Century. Highlights the City’s vision, and related initiatives like 1stAct and ZeroOne, for creating a vibrant city center to address this need in Silicon Valley. Conveys City’s success in attracting major corporations (e.g. BEA and Adobe) and in building high-rise residential developments downtown.



Gaining Mindshare with Major Media Coverage, Interviews and Story Interest from...

BARRON'S

Bloomberg
TELEVISION

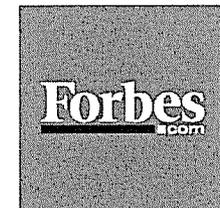
BUSINESS 2.0

BusinessWeek



DOWJONES

TIME



FORTUNE

**The
Economist**

RED HERRING

**The
Deal**

San Francisco Chronicle

San Jose Mercury News

The Washington Times



INVESTOR'S BUSINESS DAILY

WALL STREET JOURNAL

Gaining Mindshare with Major Media

- Coverage and expected coverage to date ...
The Wall Street Journal, Fortune Small Business, Business 2.0, The Economist, Prevention Magazine, Wall Street Journal Radio, KQED Radio, San Jose Mercury News and more.
- Active detailed discussions and information sharing with approximately 80 editors and reporters at leading publications and broadcast media.
- Initial contact and introductions via email to database of more than 1,000 journalists.
- Increasing media interest and engagement based on compelling news angles, feature story platforms, and city perspectives

WALL STREET JOURNAL

FORTUNE

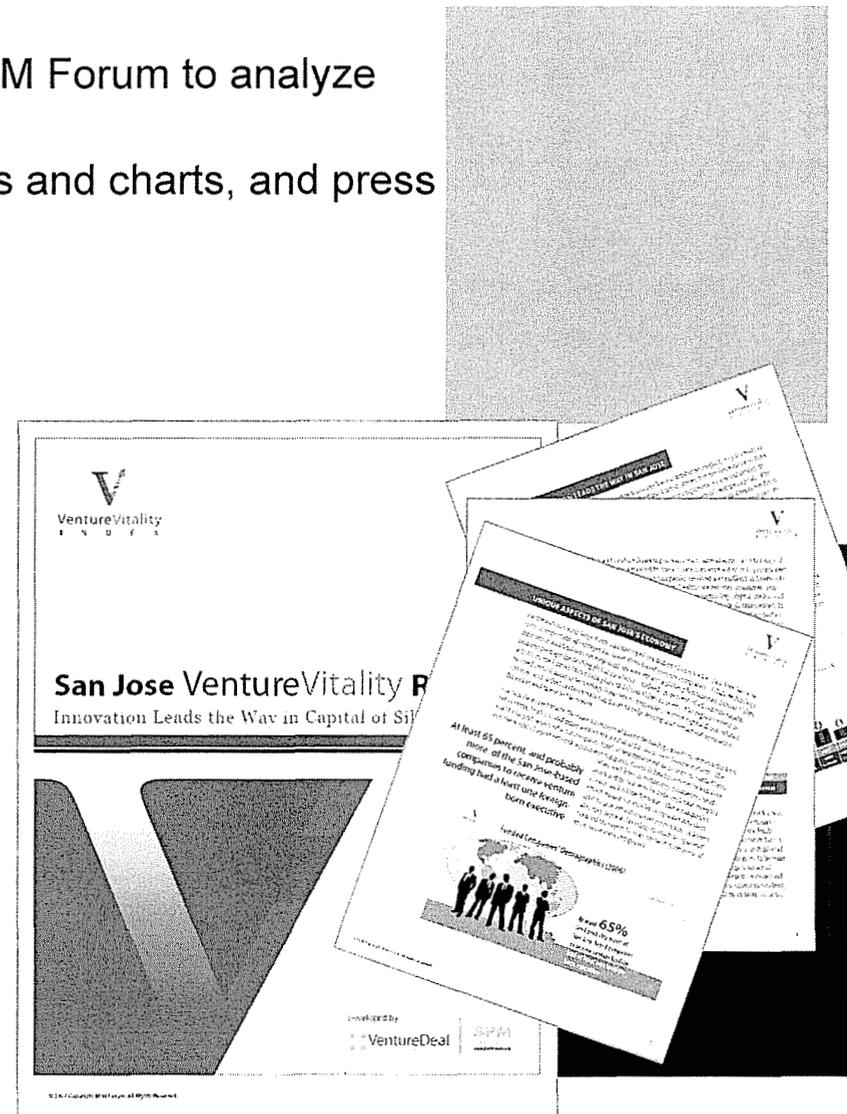
BUSINESS 2.0

The
Economist

San Jose Mercury News

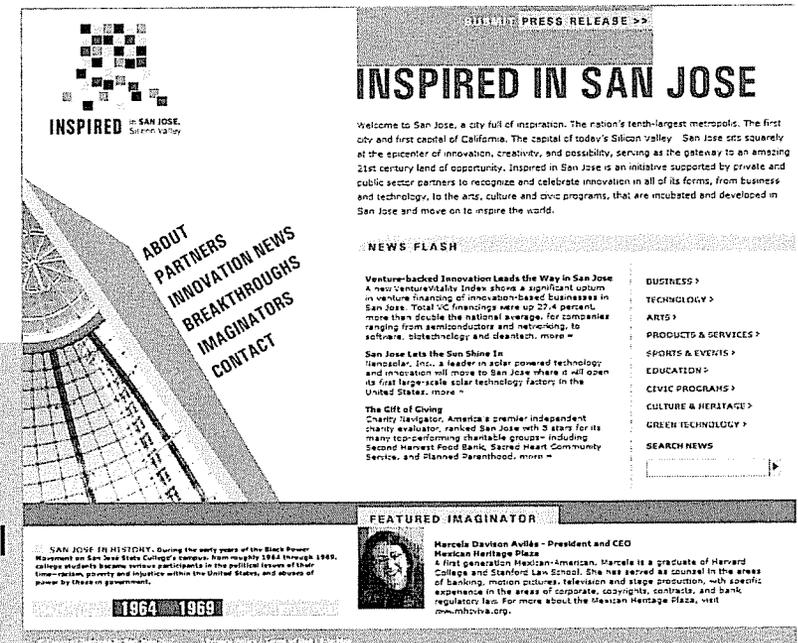
The VentureVitality Index Report

- Cooperative effort with VentureDeal and BPM Forum to analyze venture capital activity in San Jose.
- Includes published report with color graphics and charts, and press announcement of findings.
- Shows SJ venture financing up 27 percent in 2006, versus 12 percent nationally and 15 percent Silicon Valley-wide.
- Highlights diversity of San Jose's venture-funded businesses and important role of foreign-born entrepreneurs.
- Underscores San Jose's forward-thinking vision and programs that foster innovation-based businesses and growth.
- Major outreach underway with regional, national and international media.



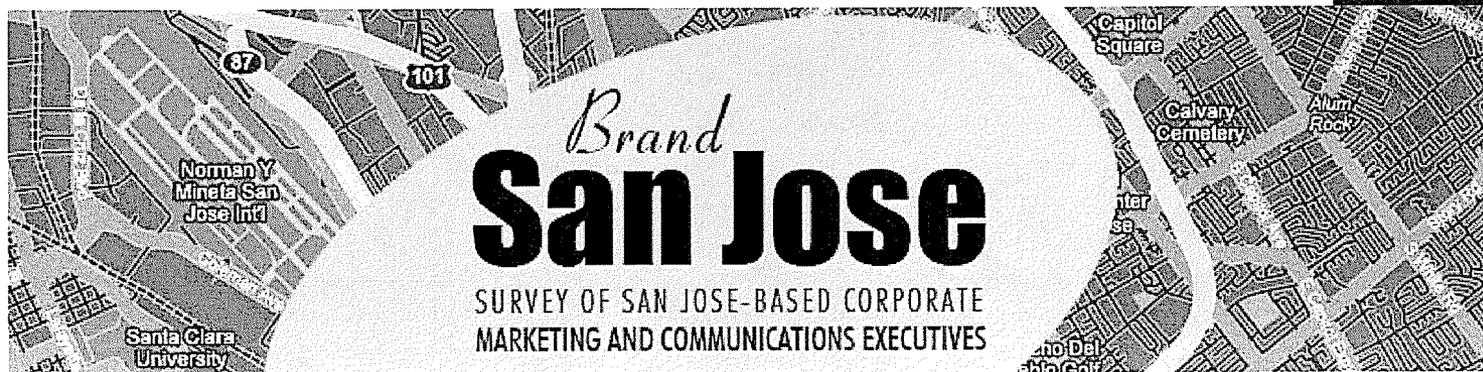
Inspired In San Jose: Corporate-City Partnerships

- Program to educate critical audiences via multi-level communications campaign.
- Seeks to build community pride and identity around unique capacity of San Jose to innovate and inspire the world.
- Designed as a cooperative initiative with business sponsorship and intellectual and content contributions from all sectors of San Jose.
- Includes web site, now under construction, that showcases innovation and inspiration in business, technology, government, people, architecture, culture, the arts, and more.
- New Inspired in San Jose logo can be emblazoned on products, web sites, promotional materials of participating companies and groups
- Will issue Annual Report on innovation in San Jose, including the San Jose Innovation Index.
- Initiatives will garner national and international media attention and support overall communications program.
- Effort to gain sponsorship and community involvement begins soon.



Brand San Jose Survey

- Survey of San Jose-based marketers, communications executives and other professionals to uncover the city's brand persona.
- Elicits insights, perceptions and fun perspectives to be used in communications and marketing effort.
- Respondents say city's most salient attributes are: Diverse, Business-Like and Innovative.
- Say the city's greatest strengths for business are: Its role as the world's technology hub, strategic location and accessibility, and close proximity to partners and customers.
- Its attractions to young, talented and skilled people include: challenging and satisfying job opportunities, access to entrepreneurial opportunity, and prospects for early wealth creation.



Questions & Answers

