PRIVATE EQUITY PARTNERS | MARKET UPDATE

June 2006

IPOs Go Abroad

Liquidity (and returns) for venture-backed companies are increasing and returning to what feels like "normal" levels after the dismal 2001-03 period. However, the face of liquidity has changed. Gone are the days of a venture-backed company reaching $10 million of revenue and going public on the NASDAQ. Rather, liquidity is more often coming in the form of an IPO abroad or an acquisition. Below are some key liquidity statistics.

- **The M&A market has been robust**
  - In 2004-05, there were over $31 billion in transactions, versus over $15 billion from 2002-2003
  - 95 companies were acquired in Q1 2006 for a disclosed value of $4.8 billion – a record high quarter for venture-backed M&A since 2001

- **The IPO market in the U.S. has been lackluster**
  - The National Venture Capital Association reported that venture-backed IPOs on U.S. exchanges dropped from 93 in 2004 to 56 in 2005 – a far cry from the 450 venture backed IPOs from 1999-2000

- **Primary reasons for lackluster U.S. IPO market for venture-backed companies**
  - High real and perceived costs of becoming Sarbanes Oxley (SOX) compliant
    - SOX costs for small companies range from $900,000 to as much as $4 million. These costs can be mostly attributed to Section 404, which requires an annual report of the risk management controls for a company (including significant outlays for IT system changes/upgrades, lawyers and auditors)
    - Assuming an average cost of $1.5 million and a 10% net margin, a SOX compliant company would need an additional $15 million in revenue to achieve the same earnings as a company not subject to SOX
    - Although difficult to quantify, SOX also can demand significant time from a company's CEO and CFO, particularly during the annual audit
  - Investors now also demand a certain critical mass for U.S. IPO candidates
    - ~$75 million or more in revenue
    - Partially a result of the dot com fallout
    - Partially because public institutional investors do not have the appetite for risk that comes with smaller companies

- **The IPO market has been booming elsewhere**
  - AIM (an affiliate of the London Stock Exchange that serves small to mid-size companies) has exploded in popularity – 519 companies went public on AIM in 2005 versus 552 companies from 1995-1999
  - The number of IPOs in India more than doubled in 2005 to 53 from 21 in 2004

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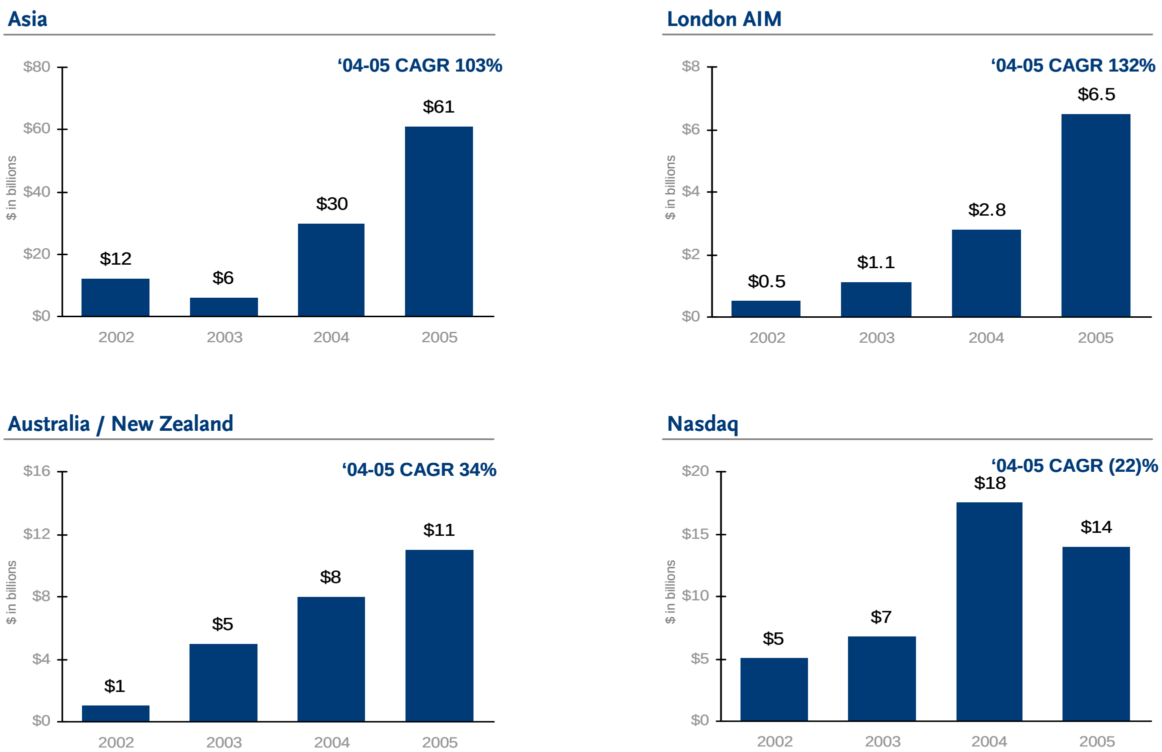
- The IPO market has been booming elsewhere (cont.)
  - In addition to AIM and India, each of more than 20 global stock exchanges raised over $1 billion in 2005
  - A few caveats to the increase of IPOs abroad
    - After a flurry of IPOs, the India IPO market has cooled and likely will remain that way for several months
    - There is still a debate whether many of these foreign IPOs are creating sufficient liquidity for venture firms to “cash in”

Total Capital Raised from IPOs



Sources: Ernst & Young, Thomson Financial, Venture Economics

We are left with two conclusions from all this. First, we support the continuing efforts by the venture capital community to cajole the SEC and Congress to explore ways to alleviate the foregoing SOX problems for small companies and their investors. Second, as a fund of funds manager, we know we must continue to seek out VCs that can adapt to the changing times and create liquidity for their portfolio companies through new means like an IPO on one of the global exchanges.

Fundraising Update

Offering documents are now available for **Private Equity Partners III** (“PEP III”), our third diversified fund of funds. PEP III will be similar to PEP II, with commitments to 10-15 venture capital funds and 10 buyout funds. We have begun to warehouse commitments to oversubscribed funds, including Madison Dearborn V, Alta Partners VIII and Oak XII. Several others are pending, particularly VC funds that are in high demand. A first closing is anticipated in late summer. Please contact Gretchen Postula if you would like a copy of the documents.

In addition, we are nearing the completion of raising and investing a clean technology fund of funds for certain of our family office and foundation clients. **Piper Jaffray CleanTech Ventures** (“CleanTech”) will invest in solar, wind, biomass, fuel cell, advanced materials and water companies. This fund will close to new investors in approximately 15 days.

*Piper Jaffray was established in 1895 and has grown to become a nationally and internationally recognized firm serving growth companies and growth company investors. We have a significant commitment to alternative assets through our series of fund of funds, **Private Equity Partners.***