PiperJaffray.

PRIVATE CAPITAL

Alternative Investment Strategies

PRIVATE EQUITY PARTNERS | MARKET UPDATE

First Quarter 2010

Impact of Government on Private Equity

1. Stimulus money is flowing in China, the U.S., Europe and Australia and is clearly benefiting investors, particularly CleanTech investors. When the U.S. stimulus bill passed last year, over $100 billion was allocated to renewable energy, smart grid, water, mass transit, energy efficiency and other related sectors. As of the end of February 2010, approximately $40 billion had been distributed or awarded, a portion of which went to contracts, loans and grants for companies like MiaSole, Tesla Motors, Solyndra and BrightSource Energy. China has set aside approximately $200 billion in stimulus funding for CleanTech, or approximately 34 percent of its cumulative $586 billion stimulus package. Europe and Australia have similarly allocated over $60 billion for CleanTech. These programs are creating jobs and stimulating each local economy, but they also are accelerating the growth of a large number of CleanTech companies in which we and others are invested.

2. On Capitol Hill in Washington, DC, legislators are busily crafting new regulations and oversight mechanisms for financial firms, including for private equity firms. There seems to be a general consensus on the Hill that venture firms are creators of jobs and buyout firms are too often destroyers of U.S.-based jobs (i.e., buy the company, fire the U.S.-employees and move manufacturing to lower-labor-cost countries). So in Spaghetti Western terms, VCs wear white hats and buyout firms wear black hats on Capitol Hill. This means venture firms are less likely than buyout groups to be negatively impacted by pending regulations.

3. Recent legislative proposals, such as the “Volcker Rule,” are causing commercial banks and other financial institutions to re-examine their involvement in private equity. The Volcker Rule, if it becomes law, would impact the private equity industry in the following ways:
   a. Ban commercial banks from investing in private equity funds;
   b. Ban commercial banks from acting as a managing member or general partner of a fund, controlling the management of a fund, or sharing the firm’s name with a fund; and
   c. Impose increased regulatory supervision, more stringent capital requirements, heightened liquidity requirements and additional disclosure practices on other (non-bank) financial institutions that engage in private equity activities.

Furthermore, FASB amended FIN 46(R) when it issued SFAS 167 in mid-2009, which caused concern within the accounting division of every U.S.-based financial institution that has a captive private equity fund. In rough terms, FIN 46(R)/SFAS 167 dictates when the parent company must consolidate private equity operations onto its balance sheet, such that the parent company must either include the value of only its own direct investment in a captive private equity fund or has to include the ENTIRE value of investments in such fund owned by it and the other LPs. SFAS 167, if fully implemented, basically would move a lot of financial institutions from the former accounting characterization to the latter (i.e., consolidate the entire fund). Based on an avalanche of feedback that such a change would unnecessarily enlarge and therefore distort balance sheets, FASB delayed implementation of the rule until next year for certain asset managers. FASB is now seeking to draft a new rule that would address this feedback and coordinate with other pending consolidation work.

Investment banks are also encountering additional regulatory activity regarding the total underwriters’ compensation that they receive for underwriting IPOs. FINRA is including the value of investments in such companies that are owned by private equity affiliates of the underwriter, and on at least one occasion, asked the underwriter to include in that calculation the value of the carried interest such affiliate and the employees thereof collectively MIGHT earn at some point in the future. To ask this is the equivalent of asking the underwriter to predict how many days it will rain in NYC in the month of March four years from now. Maybe zero; no more than 31; and anywhere in between.

As a result, commercial and investment banks are beginning to explore divestitures of their private equity investments and spinouts or restructurings of their captive fund groups.

PIPER JAFFRAY
PRIVATE CAPITAL

PRIMARY CONTACTS

Scott Barrington
Managing Partner
612 303-1110
scott.l.barrington@pjc.com

Danny Zouber
Partner
612 303-0410
danny.a.zouber@pjc.com

Mike Pohlen
Partner
612 303-6718
michael.e.pohlen@pjc.com

Mark Austin
Partner
612 303-6168
mark.d.austin@pjc.com

Gretchen Postula
Partner, Investor Relations
612 303-6331
gretchen.s.postula@pjc.com

Denise Galvin
CFO
612 303-5604
denise.m.galvin@pjc.com

MAIN OFFICE

800 Nicollet Mall
Minneapolis, MN 55402

Find us on the web at
piperjaffray.com/fundoffunds
and
cleantechfundoffunds.com

Capital Markets Update (M&A)

Debt is becoming (a little) more available for larger deals. In recent weeks, several large buyouts were financed with approximately 65 percent debt and 6x EBITDA leverage ratios, a change from the 50/50 contribution ratio and less than 4x leverage ratio that seemed standard in 2009. Lenders may be tiptoeing back to the large end of the market, but we do not expect a substantial increase in debt availability any time soon.

Lending for middle market transactions has been slower to recover, despite commentary from GE Capital (2009's second leading lender to the middle market) expressing their expectation to increase lending activity by over 50 percent in 2010. According to S&P, less than 10 percent of the roughly $2.8 billion of loans issued this year have gone to companies producing less than $50M of annual EBITDA. Average debt multiples for middle market issuers (<$50M of EBITDA) was 3.3x in 2009, down from 4.5x in 2008 and even further down from a lofty 5.6x in 2007. In light of this data, we are tempering our expectations for a meaningful uptick in middle market M&A transactions for the balance of this year.

Note: Recently, there has been a lot of promising activity in the IPO pipeline. We will discuss this activity in next quarter's update.

Information contained in this publication is based on data obtained from sources we deem to be reliable, however, it is not guaranteed as to accuracy and does not purport to be complete. Nothing contained in this publication is intended to be a recommendation of a specific security or company nor is any of the information contained herein intended to constitute an analysis of any company or security reasonably sufficient to form the basis for any investment decision.

These materials are not intended as an offer to sell, or the solicitation of an offer to purchase, any security. Any offering will be made only by means of a private placement memorandum or other appropriate materials (the "Offering Documents") that will contain detailed information about any investment to be offered; no sales will be made, and no commitments to enter into investments will be accepted, and no money is being solicited or will be accepted, until the Offering Documents are made available to prospective investors.

Piper Jaffray Companies (NYSE: PJC) is a leading, international middle market investment bank and institutional securities firm. Securities brokerage and investment banking services are offered in the United States through Piper Jaffray & Co., member SIPC and FINRA; in Europe through Piper Jaffray Ltd, authorised and regulated by the Financial Services Authority; and in Hong Kong through Piper Jaffray Asia Limited, Piper Jaffray Asia Securities Limited, and Piper Jaffray Asia Futures Limited, all of which are registered with the Hong Kong Securities and Futures Commission. Asset management products and services are offered through three separate investment advisory affiliates registered with the U.S. Securities and Exchange Commission: Fiduciary Asset Management, LLC; Piper Jaffray Investment Management LLC; and Piper Jaffray Private Capital, LLC.

PIPER JAFFRAY HEADQUARTERS ARE LOCATED IN MINNEAPOLIS, MINNESOTA, WITH OFFICES ACROSS THE U.S. AND IN LONDON, HONG KONG AND SHANGHAI

Portfolio Investments

We are pleased to announce that a number of portfolio companies in our Funds have recently been honored on the ***Top 50 VC Funded GreenTech Startups***, as compiled by GreenTech Media. Our investors may recognize some names on the list from our investment reports. Here are just a few of the companies listed and highlights of their progress so far.

Solyndra: Tubular solar photovoltaic systems that capture photons across a 360 degree range; recently filed for a $300 million IPO

Deeya Energy: Electrical energy storage system; current growth is driven by increased demand from India-based cell phone companies seeking reliable power supplies for their cell towers

Coda Automotive: All-electric, four-door vehicle at mid-tier prices; company plans to start vehicle deliveries in California in Q4 2010

BrightSource Energy: Solar thermal power system; the company has a partnership with construction-giant Bechtel, more than a gigawatt in California utility PPAs and $1.37 billion in federal loan guarantees

For the full article, click here: http://www.greentechmedia.com/articles/read/Top-50-VC-Funded-Greentech-Startups

Upcoming Events

We are regular speakers and attendees at key industry conferences. We hope to see you at these upcoming conferences:

- **April 13-15:** Scott Barrington is speaking at the Red Herring Limited 2010 in Boston
- **May 2-6:** Mark Austin is speaking at the NCPERS Annual Conference in Las Vegas http://www.ncpers.org/Conferences/AnnualConference.asp
- **May 13:** Seventh Annual Piper Jaffray China Growth Conference in New York City http://www.piperjaffray.com/conferences
- **June 2-4:** Scott Barrington is speaking at the SuperReturn USA Conference in Boston www.superreturnUS.com
- **June 8-9:** 30th Annual Piper Jaffray Consumer Conference in New York City http://www.piperjaffray.com/conferences