

August 19, 2011

Councilmember Rose Herrera
Chair, Economic Development Committee, City of San Jose
200 East Santa Clara Street
San Jose, California 95112

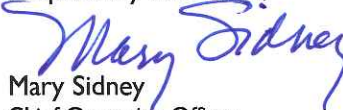
Dear Councilmember Herrera,

I am writing to you concerning the memorandum submitted by Councilmember Sam Liccardo recommending an audit of the RDA's participation in the incubator program. In view of statements in the memorandum, related information appearing in the press and other recent events, I am compelled to make the following crucial points and to once again provide summary information about the success of the San Jose Incubator Program.

1. Although not mentioned in any recent references to the 2009 incubator assessment, *the report's first key finding concluded that all of the incubators met the test of maximizing the success of emerging companies.* Now, having incubated the incubator program, the imperative before us is to focus with all due diligence and available resources to *protect—not question—the considerable public investment* that has been made by the RDA and other partners by working to ensure the future of the incubators. Public challenges to the effectiveness of the incubator program after 17 years of investment, just as the incubators are transitioning to a new model, are not only counter-productive, but seriously jeopardize a successful transition; such challenges create uncertainty in the very marketplace upon which we are depending to replace the RDA funding for our leases. Further, these public challenges are damaging to the incubator program, which operates in a competitive business environment. Yesterday we learned from an economic development professional in another state that his organization is monitoring our situation and considering contacting BioCenter clients to see if they are interested in relocating to a more politically stable business environment. Further, we fear that the BioCenter's pipeline is already being adversely affected by the continued public challenges involving the incubator program. As of this morning, one company in negotiations for space at the BioCenter quietly withdrew its request without explanation.
2. Regarding an audit of the incubator program, management has always invited and engaged City Council and staff in constructive dialogue about ways to continuously improve the program, and this absolutely remains the case. However, at this critical juncture, the focus of the incubator management team over the coming months **MUST BE** to execute the plans to transition from the lease subsidy model to a financially strong, self-sufficient model. *Any new administrative demands put upon the management team necessarily detract from their efforts to effect a smooth transition to the new model.*
3. It is also essential to any discussion about incubator performance or return on the City's investment to recognize the perspective of the client companies as well as the sophisticated and diversified group of angel and venture investors, industry experts, private sector partners and sponsors and other collaborators, *all of whom find significant value in the program.* Along with the RDA, these critical stakeholders in our local, regional and global marketplace have also invested in or have done comparative assessments and have publicly recognized the achievements of the San Jose Incubator Program and its management. (See Exhibit A)

It is critical at this time to support the incubator program in its transition to self-sufficiency without threat of disruption or the creation of new uncertainties. With a collective focus on a successful transition, we can work to *optimize the City of San Jose's ultimate return on the taxpayer's investment* as we position the incubators to continue to create companies, jobs and attract private capital to San Jose and beyond, long after the Agency's lease funding has been discontinued.

Respectfully submitted,



Mary Sidney
Chief Operating Officer
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Exhibit A

Success of the San Jose Incubator Program

Today 64 resident companies and 76 affiliate companies of the incubators are finding value in the program. These companies bring 412 jobs in well-funded companies that hire for highly-skilled, highly paid positions, all contributing to the economic prosperity of San Jose. Since inception, the incubators have graduated 412 companies out into the marketplace, and those graduates created 4,005 direct jobs. Exactly how the return on investment should be calculated might be debated, but key economic outcomes are indisputable.

- **Successes of the San Jose Incubator program include national and international recognition by industry experts.**
 - BioCenter: National Incubator Business Association (NBIA) Global Incubator of the Year 2009; Best Science Based Incubator 2010; 2010 Harvard Bright Ideas program.
 - EBC: NBIA Incubator of the Year 2008; Listed as one of “Top 10 Technology Incubators Changing the World” by Forbes.com; Ranked in *Inc. Magazine*’s list of “10 Start-up Incubators to Watch” – July 2011; Ranked #8 in Cleantech Forum’s list of “Top 10 Cleantech Cluster Organizations for 2010;” Contributed to San Jose #2 ranking by Reuters in the “Top 10 Cities for Cleantech” – March 2011
 - US MAC: Designated by the NBIA as a “Soft Landing” for international companies; established partnership with the prestigious Kauffman Foundation to provide tech entrepreneur training; in the last two years, 25% of clients have been acquired by Silicon Valley corporations.

- **Successes of the San Jose Incubator program include the placement of promising start-ups in the incubators by highly reputable and savvy private partners.**
 - Angel and venture firms backing incubator clients include Interwest, Kleiner Perkins, Venrock, CMEA, Khosla, GGV Capital, Sierra Ventures, August Capital, Claremont Creek, Founders Fund, etc. (\$1.4B in capital raised).
 - Big companies have “spun out” start-ups to our incubators: Sony, Samsung, Applied Materials, IBM, among others.

- **The highly innovative San Jose Incubator program model has leveraged the RDA investment and embraced partnerships, sponsorships, and collaboration with local, regional and global organizations.**
 - Among our partners today are private sector institutions including: Chevron, Cisco, Samsung, Sony Ericsson, Autodesk, Bayer Health, Merck, Orrick Herrington Sutcliffe, Bay Point Benefits, Kilpatrick Townsend, Alston Bird, Fenwick and West LLC, SNR Denton, Fleishmann Hillard, Midori Law, Morgan Keegan and more. These partners, leveraging the investment of the RDA, have invested financially through sponsorships totaling \$281,210 in FY2010-11 alone, and increases are planned for FY2011-12. Additional public sponsors have included National Renewable Energy Lab and California Energy Commission.
 - Unlike many incubators across the country focused on exclusive corporate, investor-driven, or university spin-out, the San Jose Incubator Program is open to all start-ups who meet the standards for entry. This provides a broad base of incubator business activity in San Jose. In fact, 25% of the BioCenter clients come from outside California or the US.
 - Similarly, faculty and student involvement includes San Jose State University, but also includes Stanford, UCSF, Cornell University, all of whom are bringing business and economic activity to San Jose.
 - Despite all these interactions across the region and the world, promotion of incubation in general by our incubator management has had no impact on the incubator program’s pipeline: today all incubators are at full capacity, and the BioCenter has a pipeline of companies, as it has had since 2005.

All of the above speaks to the reputation of and response to the extraordinary offering of the San Jose Incubator Program, and demand for services and partnerships can continue to climb. The incubators have successfully delivered a world class product befitting “the capital of Silicon Valley;” our task is to ensure the success of that product through the transition before us and for years to come.