DISCOVERY EQUITY PARTNERS

Market Update

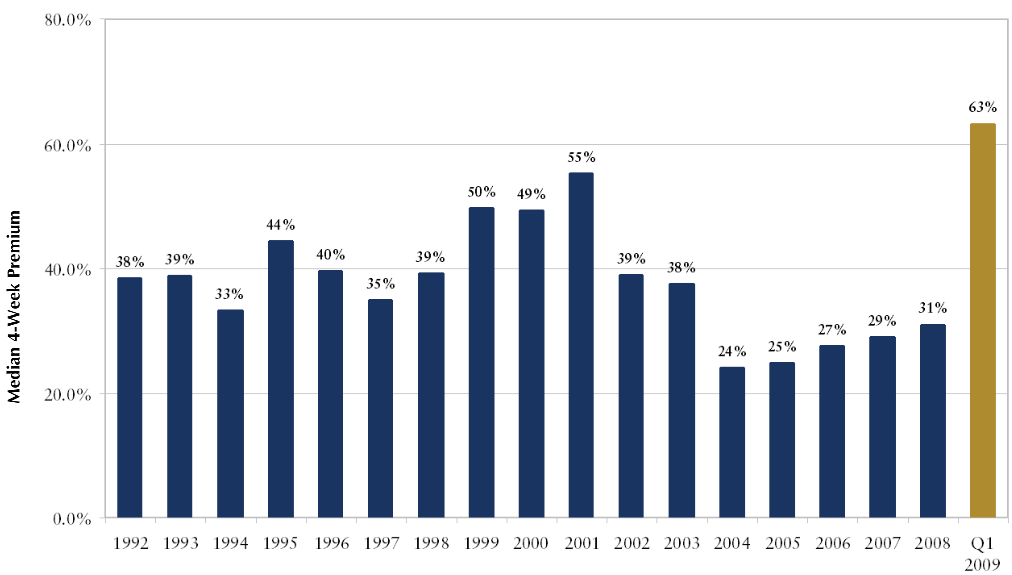
APRIL 15, 2009

Unprecedented Micro-Cap Takeover Premiums

In conjunction with a buy-out offer for one of our portfolio companies, OpenTV Corp, we were invited to present our assessment of "fair value" to the Special Committee of the Board of Directors in order to assist in their evaluation of the offer. An important component of our work was an analysis of the premiums paid in public company takeovers since the market decline that began on September 19, 2008. What follows is a discussion of the unprecedented level of premiums being paid for micro-cap companies in change-of-control transactions. (The entire presentation can be viewed at http://www.thediscoverygroup.com/optv.htm).

It is not surprising to find that acquisition premiums have risen in recent months for public company transactions. The massive decline in stock prices has pushed enterprise valuations so far down that even modest takeover valuations now result in strong percentage gains from current trading levels. Still, the magnitude of the increase in premiums paid in recent transactions is noteworthy. The chart below shows the median acquisition price paid relative to each target's trading value four weeks prior to the announcement of a deal, for all micro-cap transactions since 1992. Premiums reached a record high point in the first quarter of 2009. Clearly, the M&A market is telling us that these companies are worth far more than their trading value, which has long been the case with micro-caps but never so pronounced.

Micro-cap Takeovers: Premiums



(1) Reflects transaction values ranging from $25 million to $500 million; excludes financial institutions
Source: Capital IQ database and Discovery Group research

Even more striking, while the median premium paid in the recent quarter was 63%, the average (mean) premium was 115%. This difference is caused by a high degree of skewness in the data. Specifically, for the half of the companies that fall above the 63% median the premiums are substantially higher. This indicates that, despite depressed public market conditions, the better micro-cap companies do not have to sell themselves cheaply.

It is also worth noting that the pace of deal activity among micro-caps has remained healthy. In the first quarter of 2009 there were 26 deals underlying our median premium calculation. This number was an increase from last quarter and is well within the historical range of 20-40 deals per quarter that we have analyzed in previous Market Updates.

The situation for micro-cap companies can be summarized as: 1) micro-cap trading values are extremely depressed; 2) micro-cap Boards are stunned by the predicament of high public ownership costs coupled with persistent valuation challenges that are now exacerbated; 3) select micro-cap companies are exceedingly attractive takeover targets because of the business niches they command; 4) acquirers are offering stockholders enticing premiums and, as a result, deals are getting done. These conditions are ideal for the Discovery Equity Partners strategy.

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Discovery Equity Partners, L.P. seeks to exploit the valuation anomaly associated with small capitalization public companies that trade at deep discounts to their economic value as a result of limited research coverage, low trading liquidity and rare institutional sponsorship. The Fund accumulates meaningful ownership stakes in anticipation of an accretion in value that will result from specific company and industry developments. Discovery Equity Partners, L.P. is managed by Discovery Group I, LLC. Return data is preliminary and subject to audit.

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