



# Venture Capital Return Have Historically Outperformed the Market, but With A High Degree of Volatility

## Venture Returns:

- Over the long-term (10 and 20 years) Venture Capital returns have been higher than the stock market
- Cyclical variations of returns highlight the volatility of the Venture Industry

### Thomson Financials' US Private Equity Performance Index (PEPI)

Investment Horizon Performance through 12/31/2007

Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early/Seed VC	11.7	4.7	4.3	35.5	20.9
Balanced VC	24.2	13.7	12.3	15.7	14.6
Later Stage VC	31.9	11.7	10.4	9.1	14.3
<b>All Venture</b>	<b>19.5</b>	<b>9.4</b>	<b>8.5</b>	<b>18.3</b>	<b>16.7</b>
NASDAQ	7.6	6.6	14.5	5.3	10.9
S&P 500	2.1	6.4	10.6	4.2	9.3
<b>All Venture (through 9/30/2007)</b>	<b>28.4</b>	<b>11.0</b>	<b>7.0</b>	<b>17.9</b>	<b>16.5</b>
<b>All Venture (through 12/31/2006)</b>	<b>17.8</b>	<b>9.8</b>	<b>1.4</b>	<b>20.5</b>	<b>16.6</b>

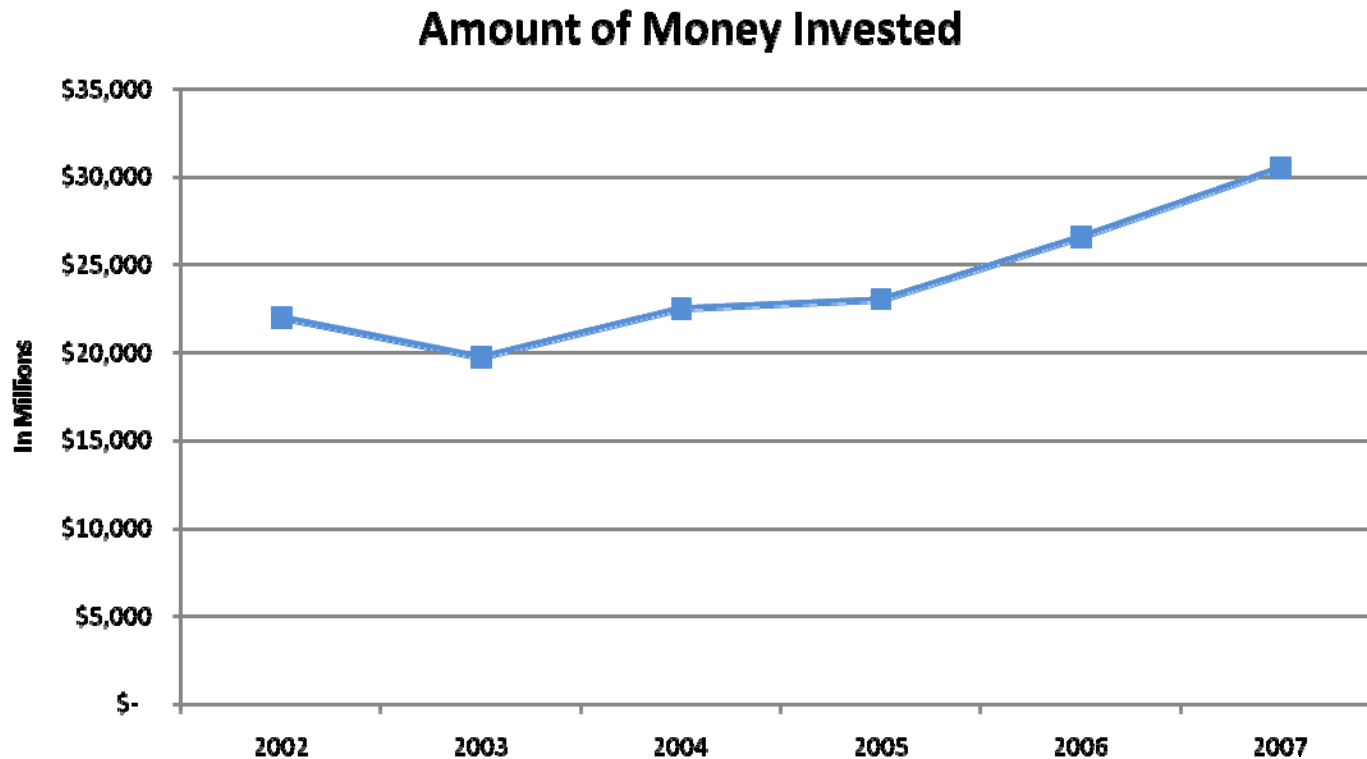
Source: Thomson Reuters/National Venture Capital Association



## The Industry Experienced a Recent Short-Term Period of Expansion

### Venture Expansion:

- 1,181 funds have been raised since 2002
- Venture dollars invested have increased 39% since 2002
- Over 3,900 venture deals were consummated in 2007





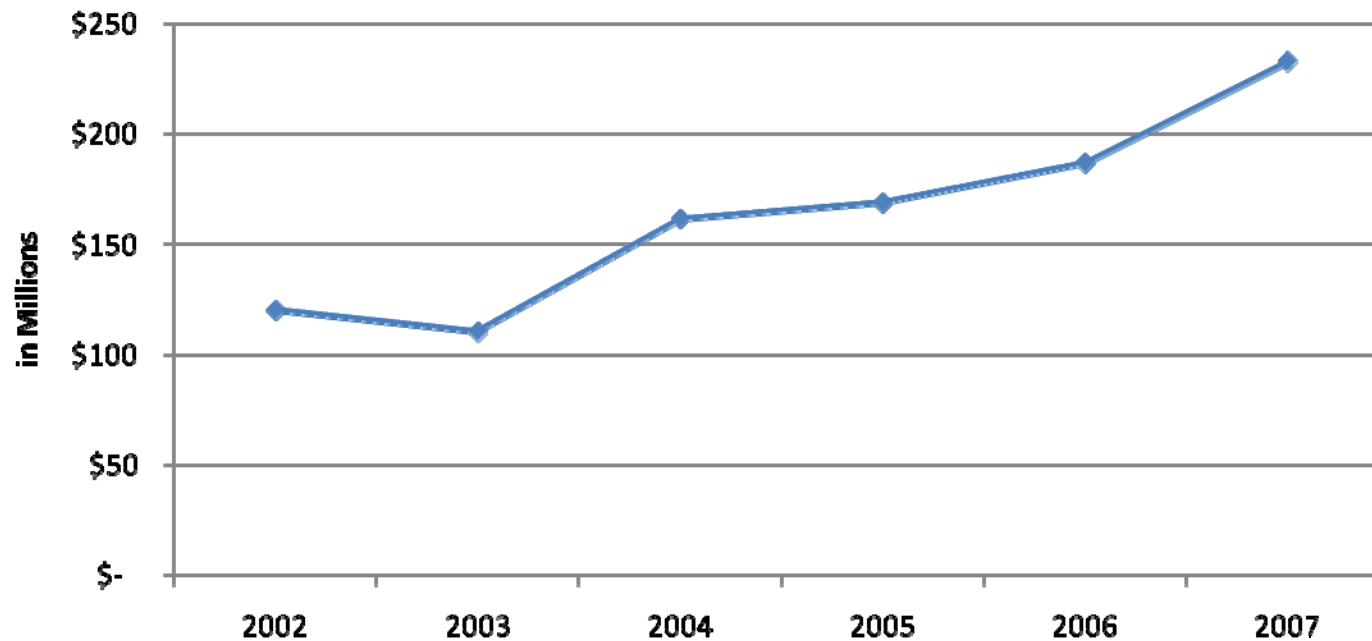
# Funds Raised Larger Amounts of Capital

## Funds got bigger:

- The average size of new funds raised has increased by 93% from 2002 to 2007
- Number of funds raised in Q1 of 2008 dropped by 31% from the same period in 2007 , but the dollar amount remained unchanged

## Average Size of Funds Raised

In San Francisco, SoCal, NY, Boston and Seattle



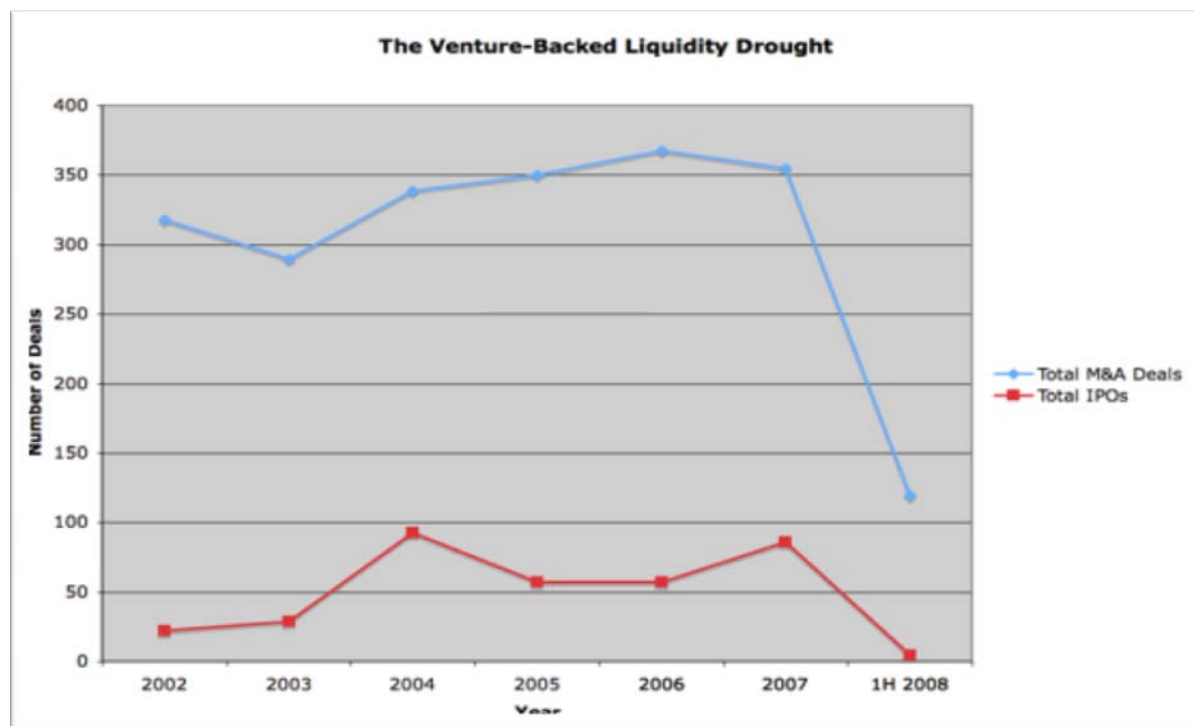


# Recent Months have Seen Exits Opportunities Worsen Considerably

## Exit Opportunities Dwindling:

Several factors, including macro-economic issues, a weak stock market and Sarbanes-Oxley have decreased IPO and M&A exit opportunities

- Only five VC backed companies issued IPO's in Q1 of 2008, and none in Q2
- The venture backed M&A market had only 56 deals in the first quarter



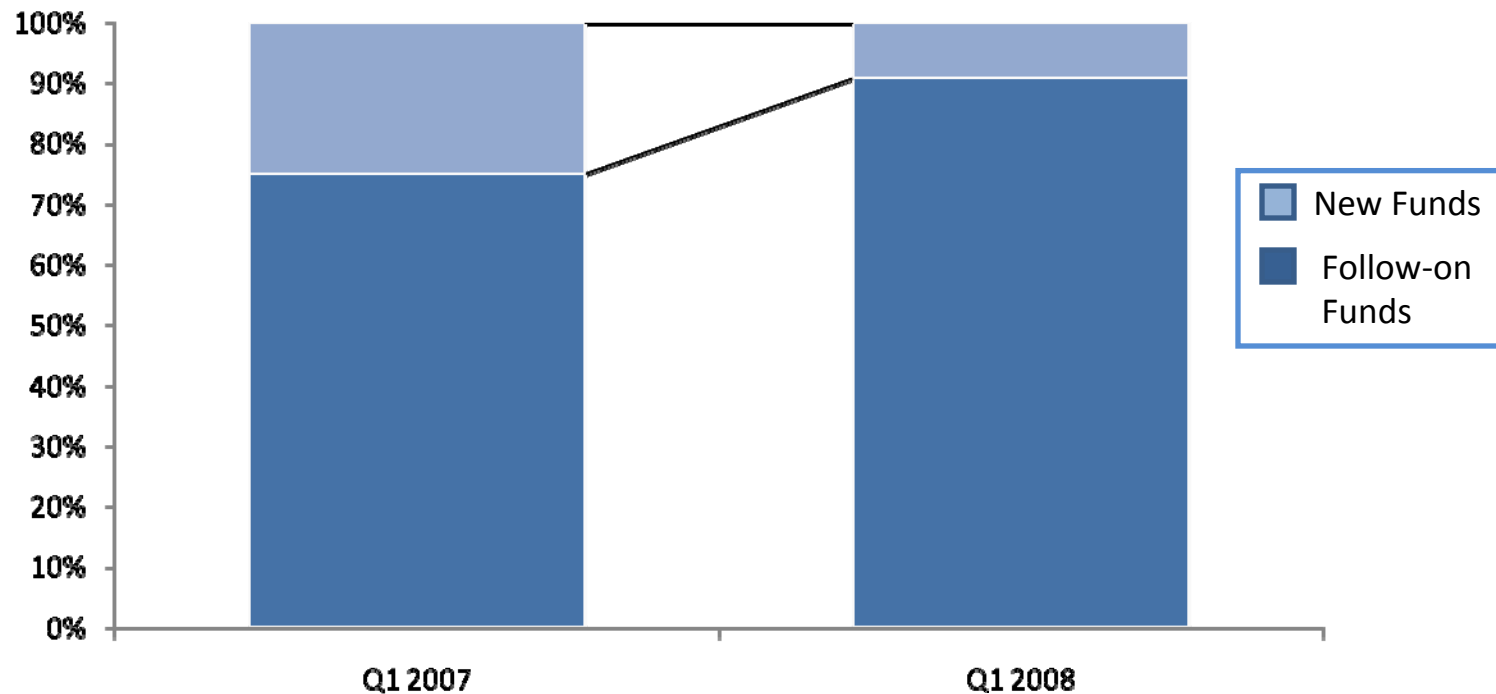


# Fewer New Funds are Being Raised

## Harder to Raise New Funds:

The ratio of follow-on to new funds is approximately 10-to-1 in the first quarter of 2008, compared to less than 3-to-1 in the first quarter of 2007

### Follow-on to New Fund Ratio



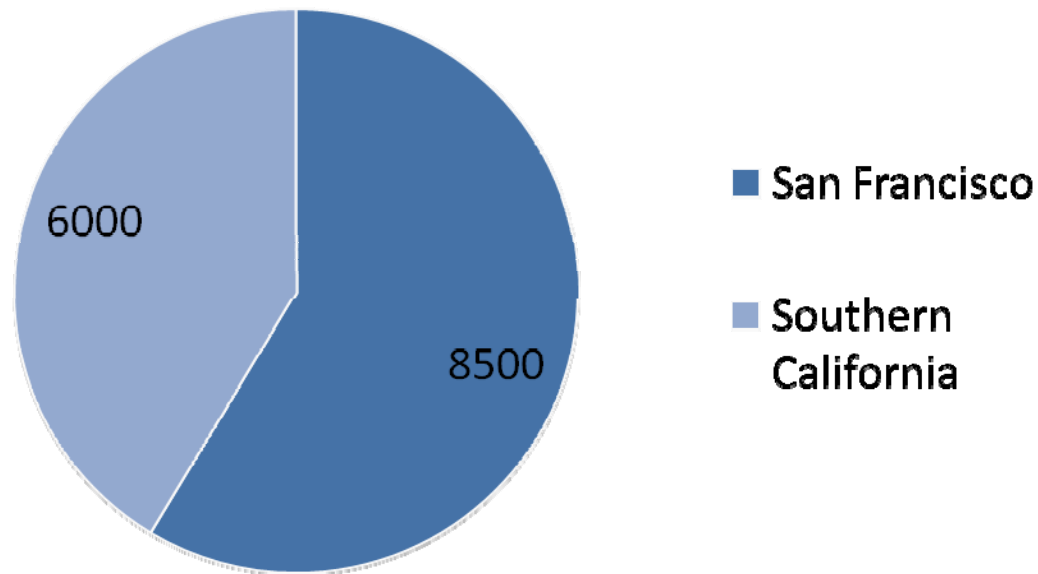


# The Fundamentals of Southern California Should Produce Abundance of Investment Opportunities

## Research & Development in Southern California:

- Southern California has roughly 6,000 patents a year issued, which is roughly 70% of the patents issued in Silicon Valley
- University R&D spending in Southern California is the highest in the country at \$4billion dollars a year

## United States Patents Issued



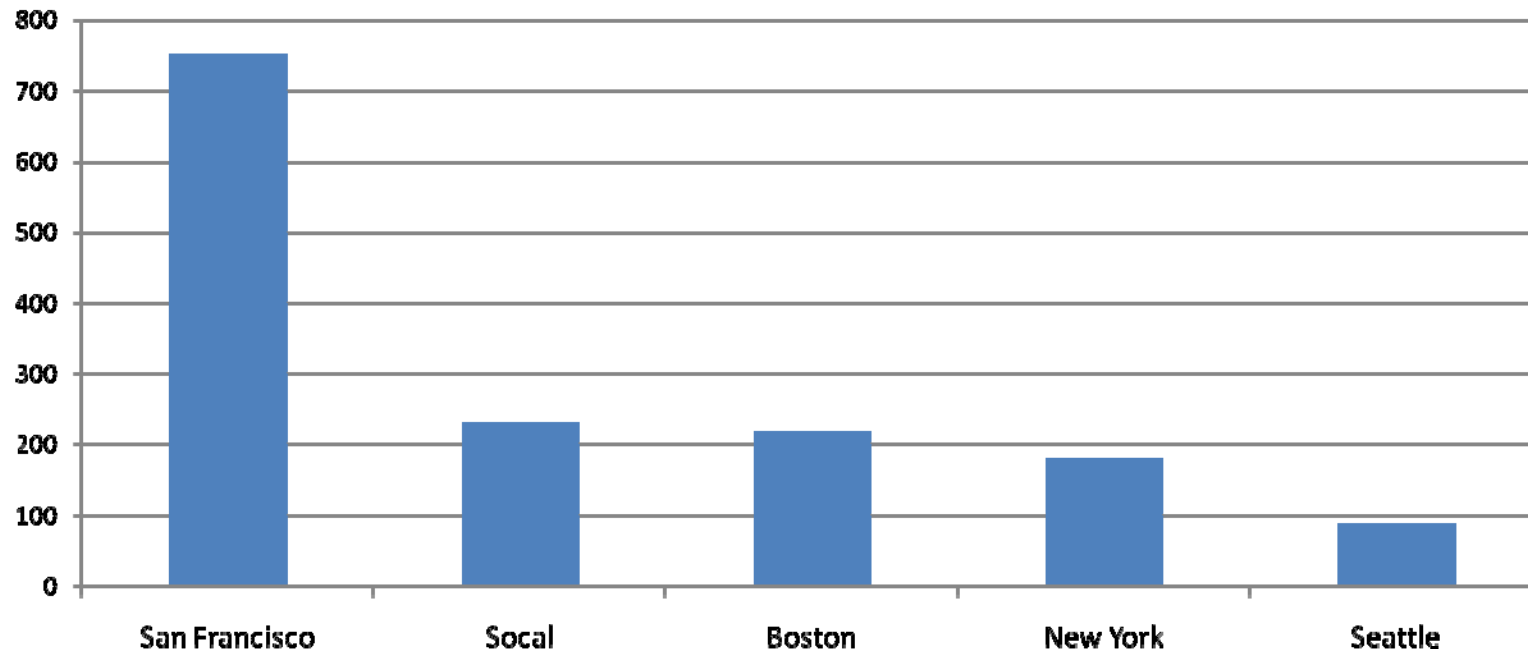


# Southern California is the Second Most Active Startup Region

## Sothern California is vibrant startup region:

- There were 231 SoCal based companies receiving VC funding from June 2007 to June 2008
- SoCal funded startups represent 9% of all startups receiving funding during that time period

**VC Funded Companies\***  
06/01/2007 – 06/26/2008



\*Companies receiving VC investment from 06/01/2007 to 06/25/2008

Source: VentureXpert

Data as of 06/26/2008

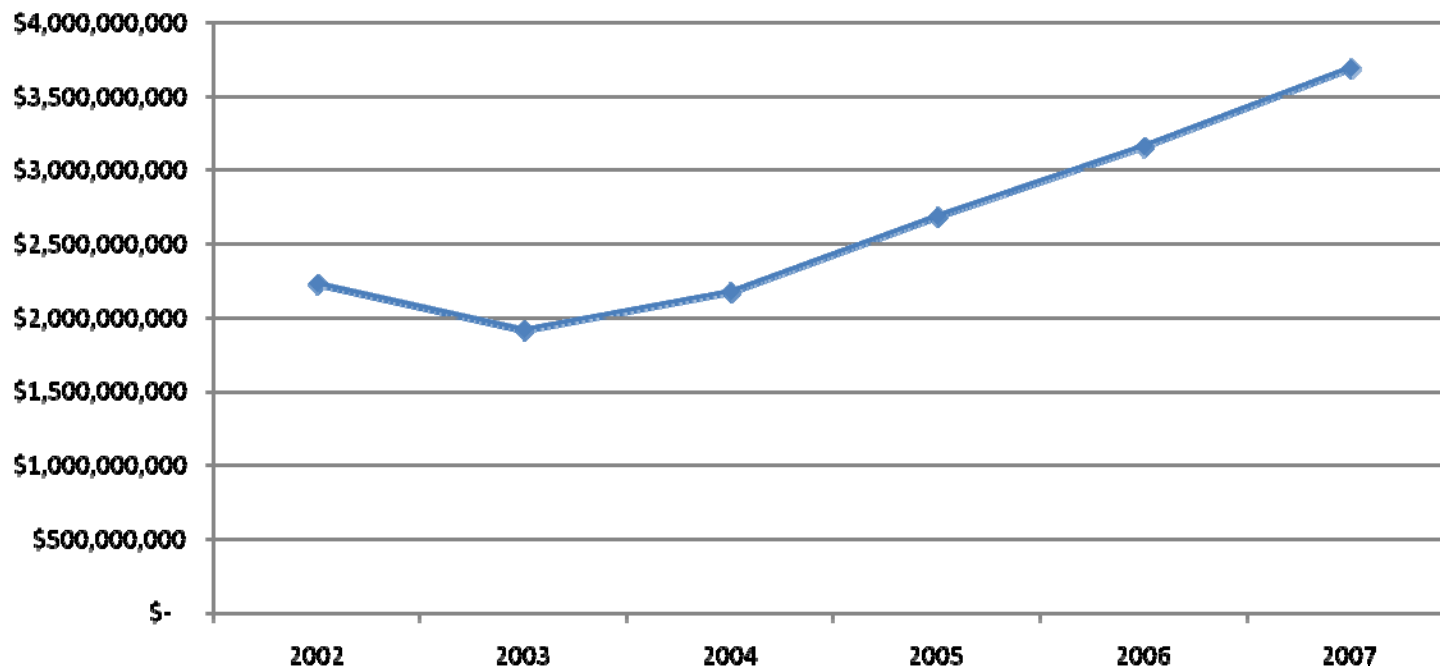


# Southern California has Seen A Rapid Expansion of Venture Investments

**Venture Capital investments in SoCal have been growing :**

- The total number of Venture dollars invested in SoCal increased by 65% from 2002 to 2007

**VC Investment Amount in SoCal  
2002-2007**

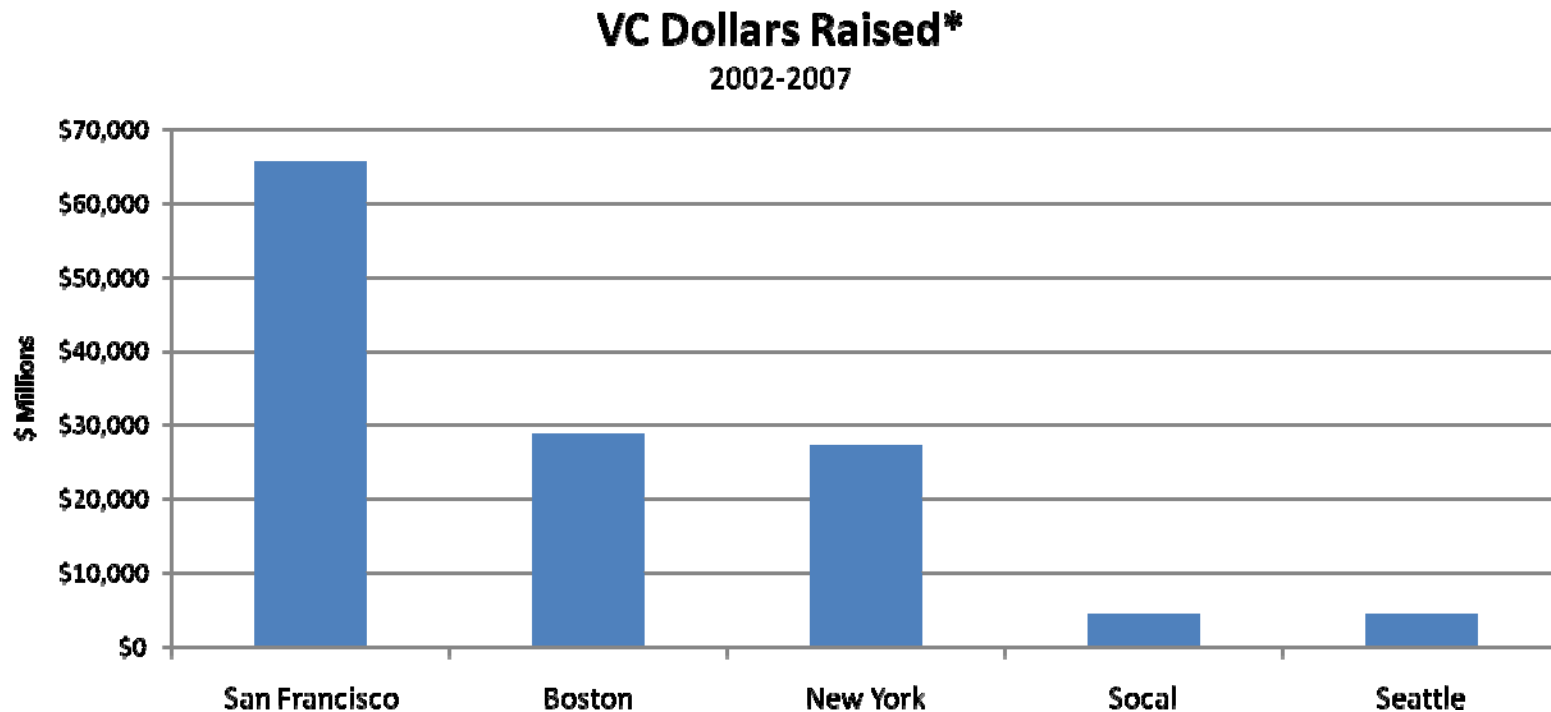




# However, Southern California has Significantly less Local Funding

## Southern California has few local venture dollars:

- SoCal has only 3% of the Venture Capital\*
- SoCal is only the number four region in terms of Venture Capital available



\*Funds raised between 2002-2007 with at least \$1million

Source: VentureXpert

Data as of 06/26/2008



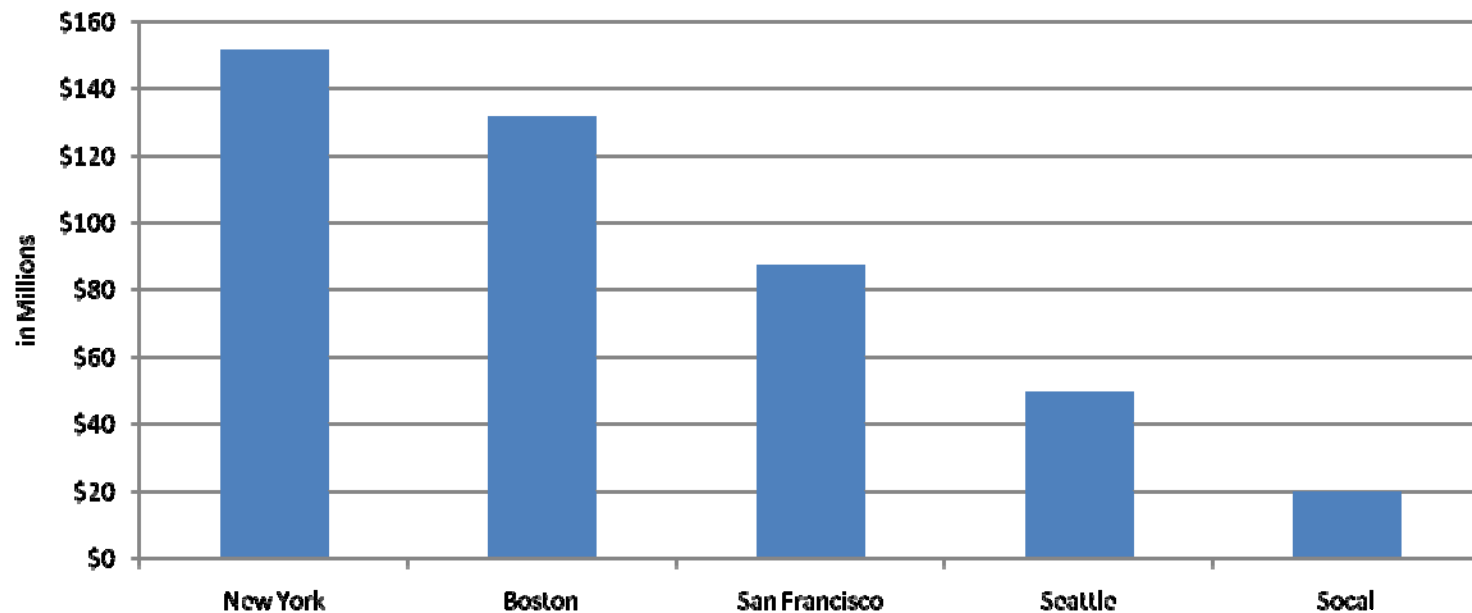
# Southern California Also has Relatively Less Capital Available per Startup

## Southern California has fewer resources per funded startup

- New York has 7.6X more capital per funded startup than Southern California
- Southern California needs to raise two and a half times its current VC capital base to have the same ratio as Seattle

### VC Funding Available per Startup\*

From funds raised 01/01/02 to 06/26/08



\*Companies receiving VC investment from 06/01/2007 to 06/25/2008

Source: VentureXpert

Data as of 06/26/2008

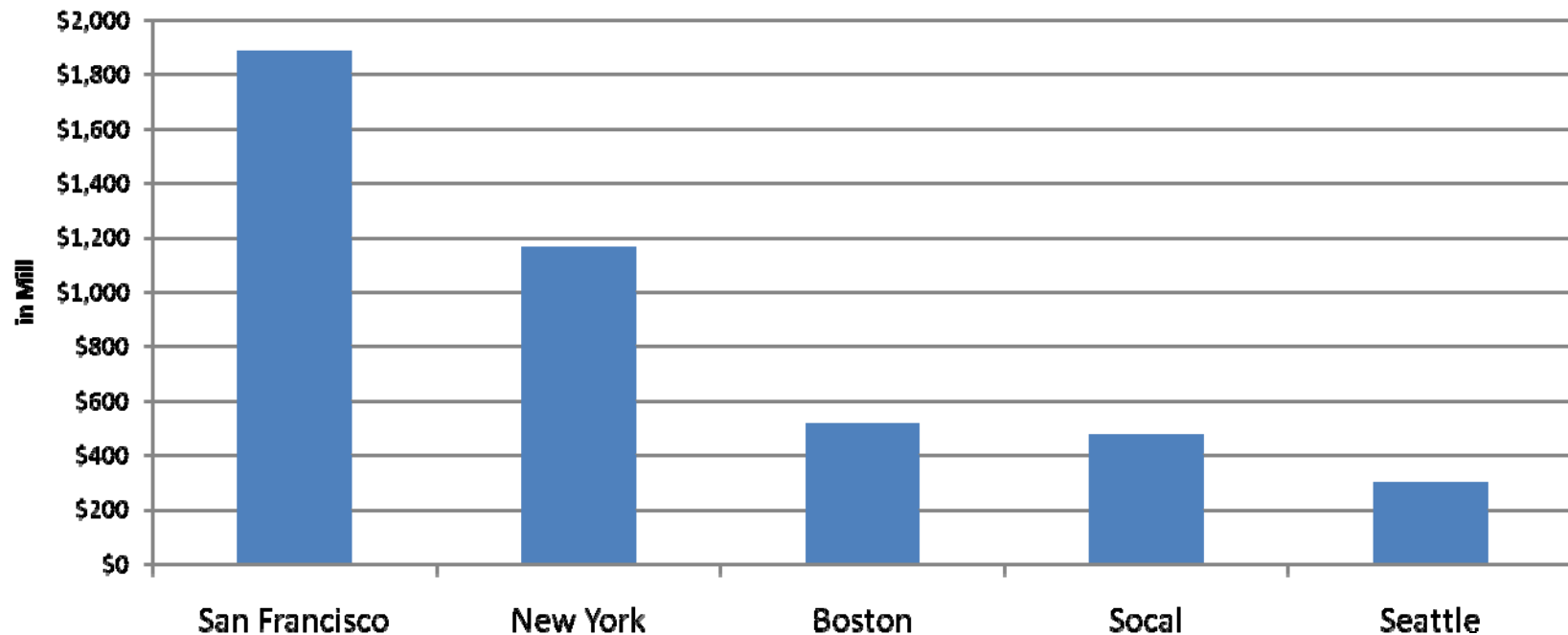


# Southern California also has Less Money Available for Capital Efficient Investments

## Relatively few capital efficient dollars available:

- Only Seattle VC's have less assets under management than SoCal in funds with between \$10 and \$50 million
- Only five new \$10-50 million SoCal funds were raised in 2007 and the first half of 2008

**Funds Raised by VC's with \$10-50 mill AUM**  
2002-2007

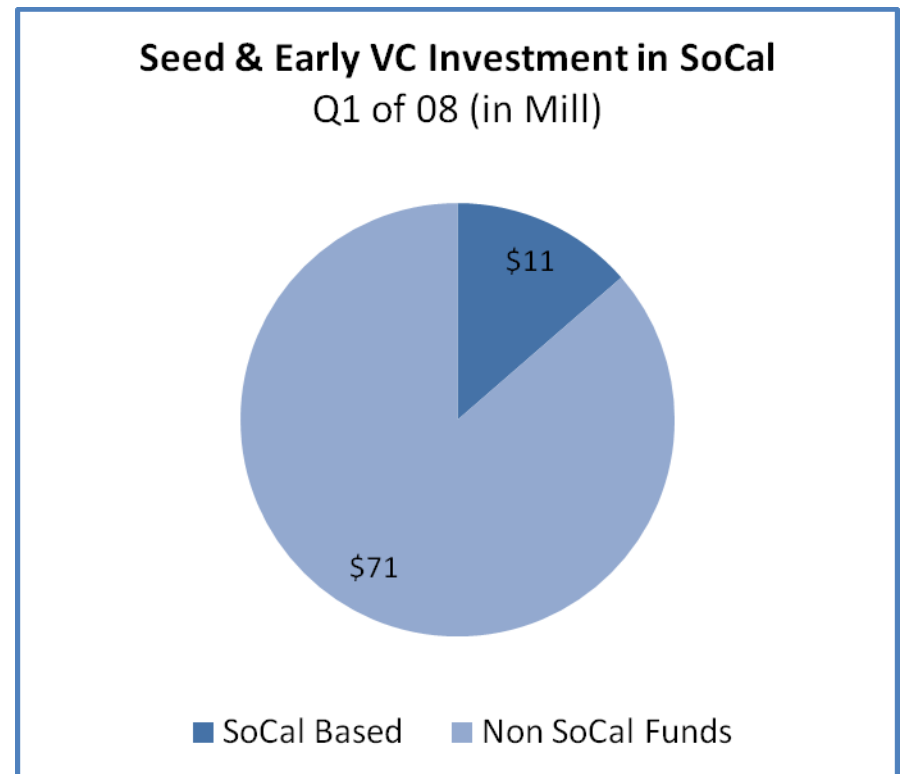
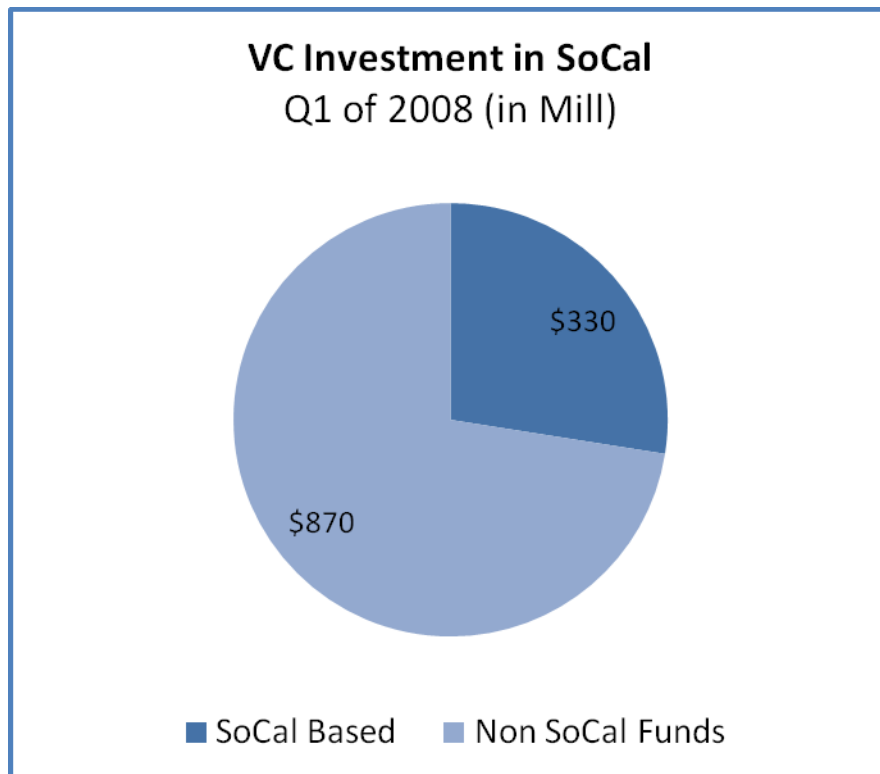




# Southern California Startups are Raising Money from other Regions

**Venture Capital dollars are being invested in SoCal from other regions:**

- Over 73% of Venture investments in SoCal in Q1 of 2008 came from outside the region
- For Seed & Early deals, over 86% of the VC dollars in the same period came from other areas



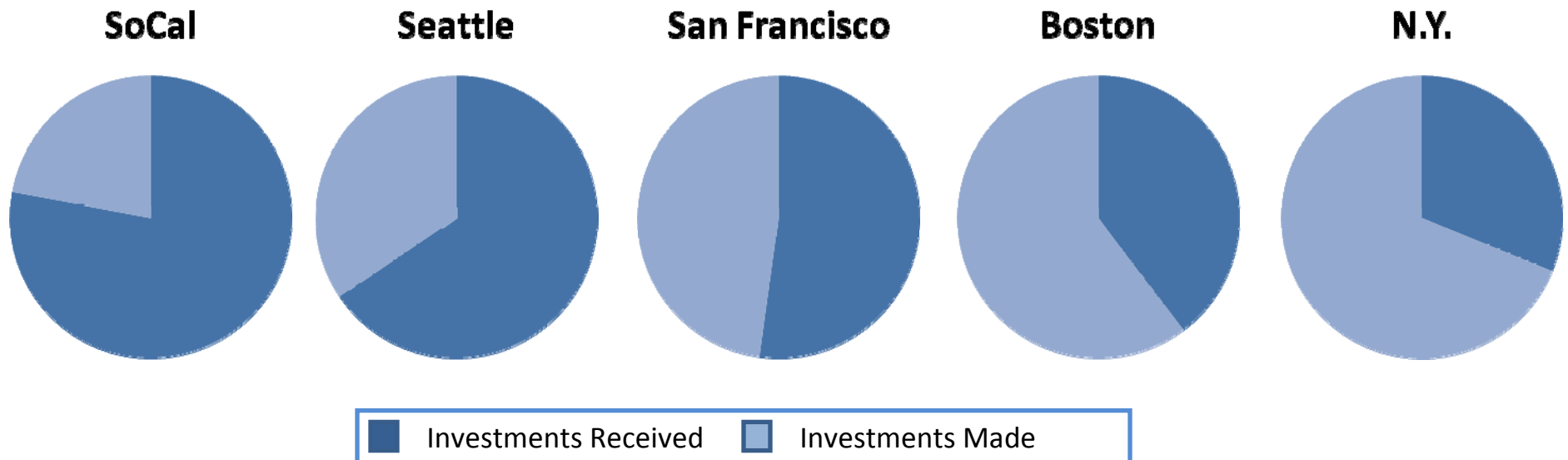


# Southern California is the Largest Net Importer of Venture capital

**On a local basis, SoCal funds were proportionately the least active investors:**

- SoCal imported \$870 million dollars of Venture capital in Q1 of 2008, more than the entire amount of capital invested in NY, Boston, or Seattle startups

## Investments Made and Received by Region Q1 2008



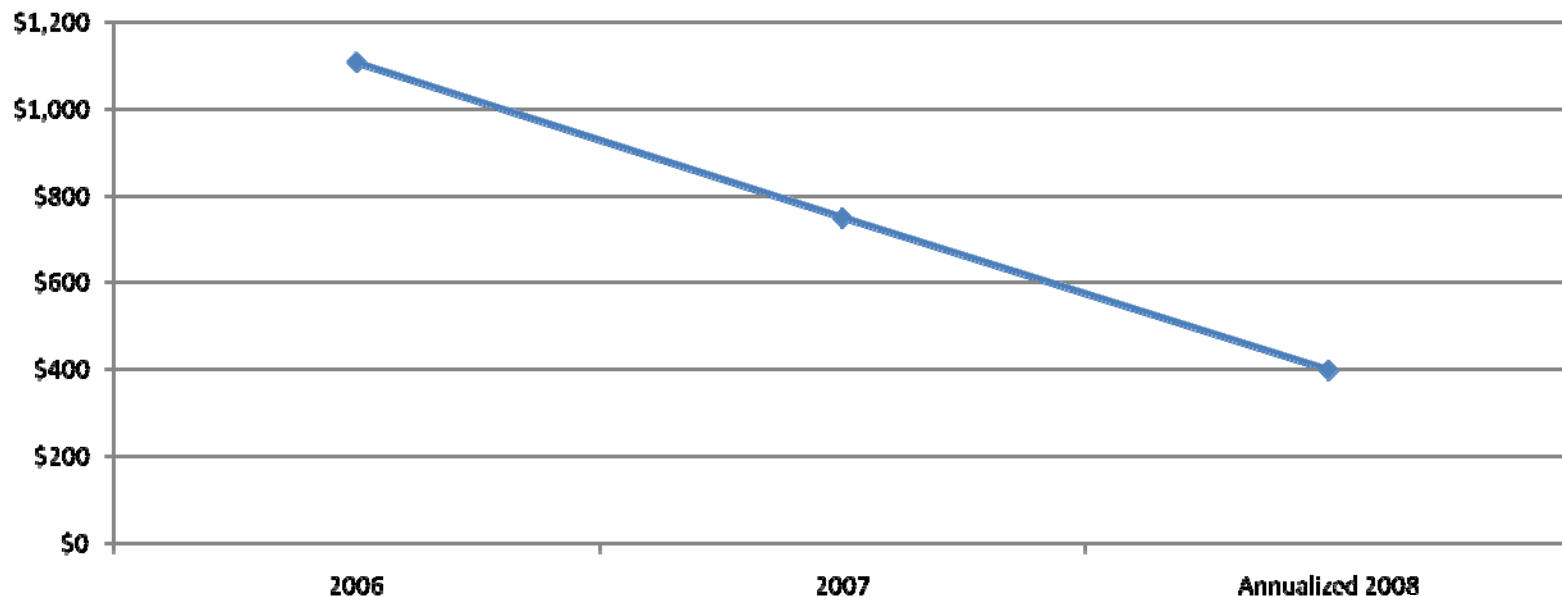


# The Southern California Funding Situation is Getting Worse as Less Capital is Being Raised

## Fewer Funds are Being Raised with Less Capital:

- Only four Venture funds were raised in Southern California in the first 2Q of 2008, for a total of \$200 million
- Early stage funds only raised a total \$64.6 million
- Average raise of Venture funds in Q1 and Q2 of 2008 was \$50million, down from \$83 million in all of 2007

## Amount of Capital Raised by Seed & Early SoCal Funds





# At the Same Time Southern California Round Sizes are Increasing

**Venture Funding rounds are getting bigger:**

- The average Venture Capital round increased in size by 15% from 2002 to 2007

**Average Venture Round Size in SoCal**  
2002-2007

