



Venture Capital Outlook Survey First Quarter 2008

Venture Capitalists, financing Washington's early-stage investments, were polled as part of the Washington Technology Industry Association's inaugural Venture Capital Outlook Survey --- an ongoing look at the Venture Capital investing climate in Washington State.

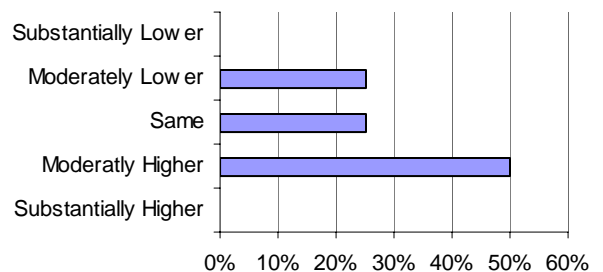
This survey queries top, local VC firms about indicators for the coming quarter and explores such topics as projected deal quality, deal quantity, expected exits, and portfolio company condition --- all in comparison to the preceding quarter.

The Association worked closely with the local VC community to both develop this survey and obtain their commitment to participate on a quarterly basis. It is believed this information will be helpful to Washington State investors, entrepreneurs and governmental institutions as they seek to understand the Venture Capital investment climate as viewed by those who make local investments.

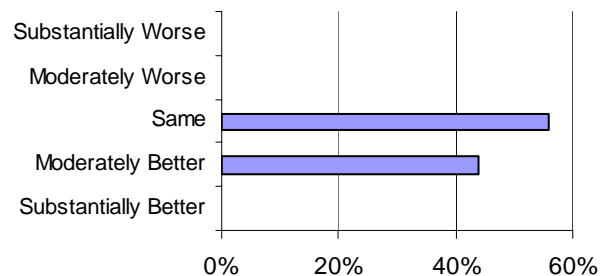
First Quarter Survey Highlights:

- There is cautious optimism towards both new deal quantity and new deal quality for the first quarter. New deal valuations appear relatively stable as compared to the fourth quarter of 2007 with the possibility of increased valuations for both early-stage, pre-revenue and mid-stage (revenue up to \$10 Million) investments. Conversely, later-stage (\$10 Million+) deal valuations show the potential of moving moderately lower.
- 75 percent of the respondents indicate they will be making one to two new investments in the first quarter, with the number of follow-on investments ranging from zero to five for each firm. A majority of the new investments are considered "A" round and are in the \$3 to \$6 Million range. Respondents expect that every investment will include an out-of-state, co-investor; and a majority will co-invest with an in-state VC.
- The biggest challenge for the investment environment in the first quarter appears to be the deteriorating public markets and the outlook for the overall economy which could affect follow-on financing rounds and company exits.
- Survey results indicate that existing portfolio companies will continue to see positive revenue and employment growth for the first quarter. 50 percent of the respondents state revenue growth will be moderately better than the fourth quarter of 2007; and 88 percent indicated a workforce growth of more than 10 percent.

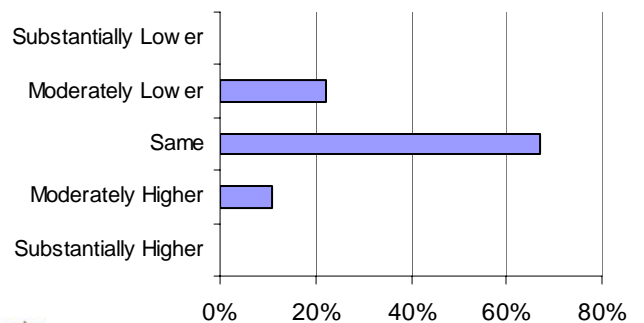
**1st Quarter Forecast
New Deal Flow Quantity**



**1st Quarter Forecast
New Deal Flow Quality**



**1st Quarter Forecast
New Deal Valuations (Early Stage)**



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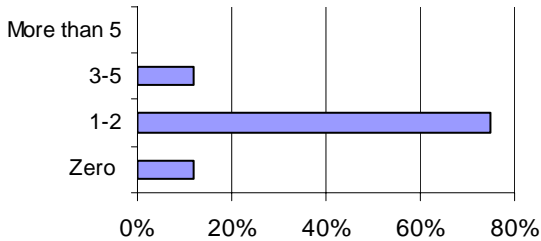


FROM THOUGHT TO FINISH.™

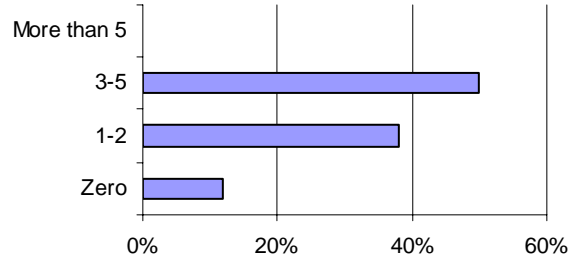


Legal Counsel to Great Companies

**1st Quarter
Projected New Investments by Firm**

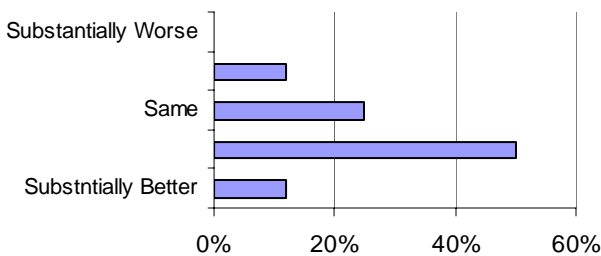


**1st Quarter
Projected Follow-on Investments by Firm**

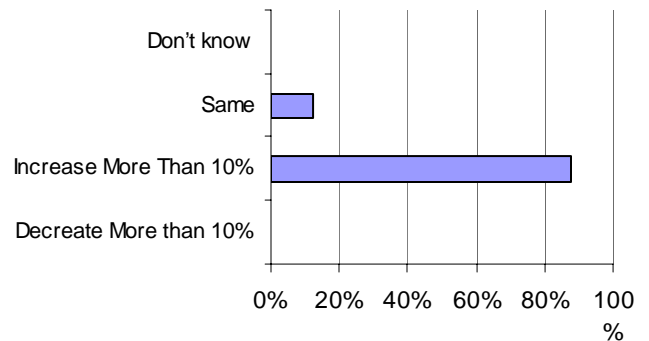


- In terms of portfolio-company exits, one company of all respondents was expected to IPO this quarter; and nine companies were projected to be acquired. 71 percent responded that their portfolio companies would not be off-shoring any significant business functions.
- As the old adage holds -- "it is all about people." Our respondents view the inability to find top executive talent as the greatest challenge facing their portfolio companies. Availability of Capital and Local Business Conditions were consistently at the bottom of the list of challenges.

**1st Quarter
Project Portfolio Revenue Growth**



**1st Quarter
Projected Portfolio Workforce Growth**



The Washington Technology Industry Association intends to publish the results of this survey on a quarterly cadence and believes the value of the data will only increase over time. We appreciate the time and support of the participants.

The full report is available at www.washingtontechnology.org which includes the percentile responses by each of the 21 questions explored in this survey. For questions or comments please contact David Kosciuk at (206)448-3033 x134, dkosciuk@washingtontechnology.org. Media inquires may be directed to Autumn Monahan, MWW at amonahan@mww.com



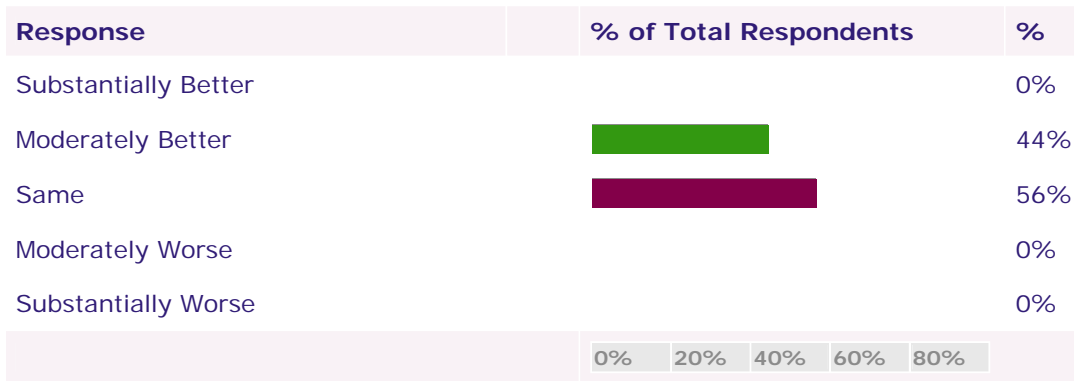
VENTURE CAPITAL OUTLOOK SURVEY 1ST QUARTER 2008

OVERALL CONFIDENCE

1 - For the coming quarter, what is your confidence in the Quality of the NEW deal flow compared to the prior quarter?

• **Select one of the following**

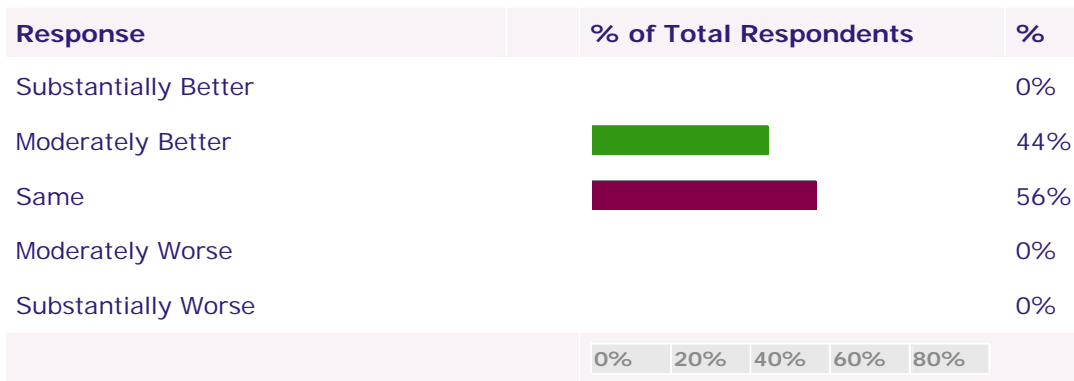
(Each Respondent could choose only **ONE** of the following options:)



2 - For the coming quarter, what is your confidence in the Quality of the deal flow EXPECTED TO CLOSE, compared to the prior quarter?

• **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



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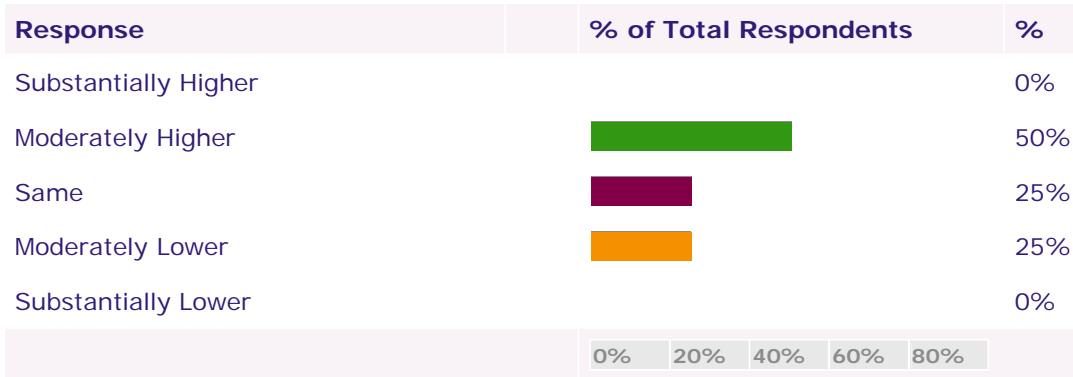




3 - For the coming quarter, what is your confidence in the Quantity of the NEW deal flow compared to the prior quarter?

- **Select one of the following**

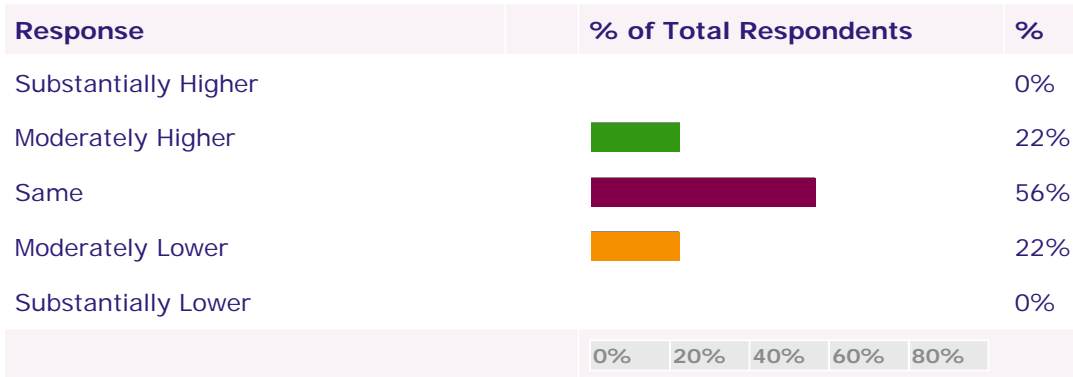
(Each Respondent could choose only **ONE** of the following options:)



4 - For the coming quarter, what is your confidence in the Quantity of the deal flow EXPECTED TO CLOSE, compared to the prior quarter?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



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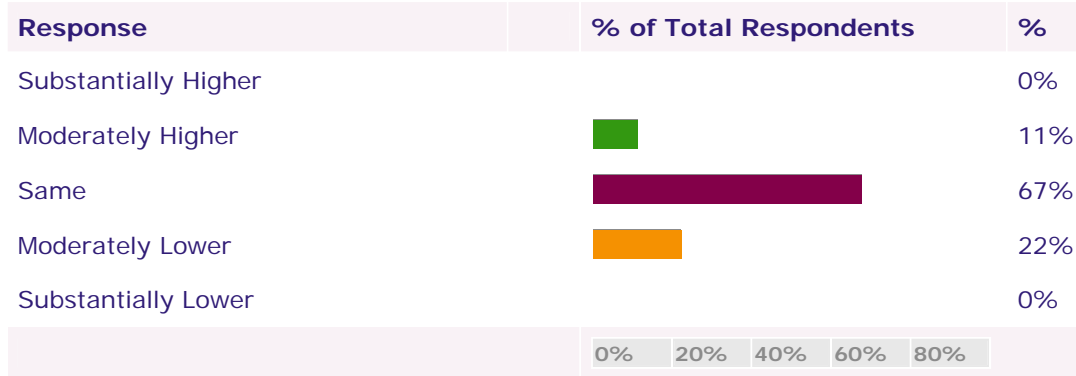




5 - For the coming quarter, what is your expectation for the deal valuations for new investments in Early (pre-revenue) stage companies, compared to the prior quarter?

- **Select one of the following**

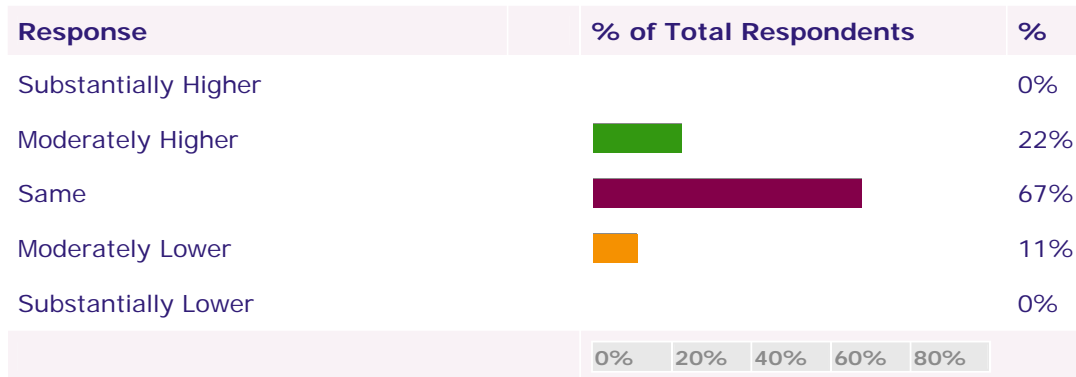
(Each Respondent could choose only **ONE** of the following options:)



6 - For the coming quarter, what is your expectation for the deal valuations for new investments in Mid (revenue to \$10m) stage companies, compared to the prior quarter?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



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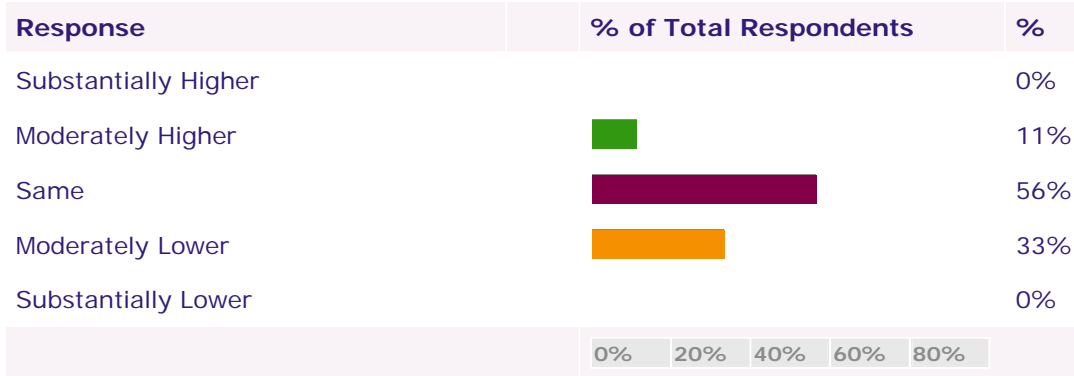




7 - For the coming quarter, what is your expectation for the deal valuations for new investments in Late (\$10m+ revenue) stage companies, compared to the prior quarter?

• **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



8 - As you look at the quarter ahead, describe the biggest challenge you see regarding the investment environment.

Respondent answers:

- IPO markets
- Too many deals
- Overall economy
- Economic conditions
- Hiring
- Investment-bank-led auctions
- Turbulent public markets that affect exits

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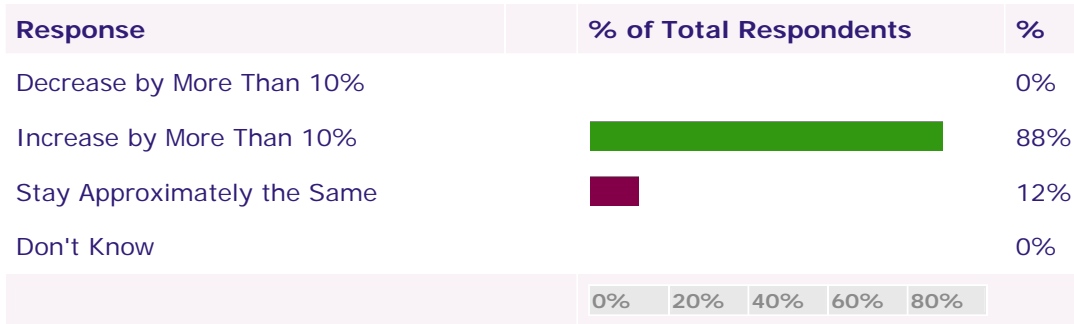




9 - For the next twelve months, do you expect the Washington State workforce for your portfolio companies to:

- **Select one of the following**

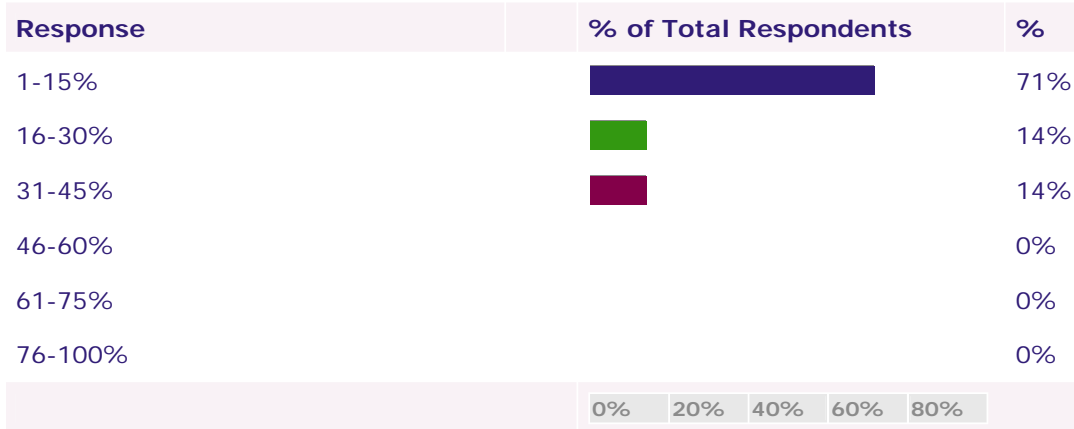
(Each Respondent could choose only **ONE** of the following options:)



10 - In the next twelve months, what percentage of your portfolio companies do you expect to offshore any significant business functions?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



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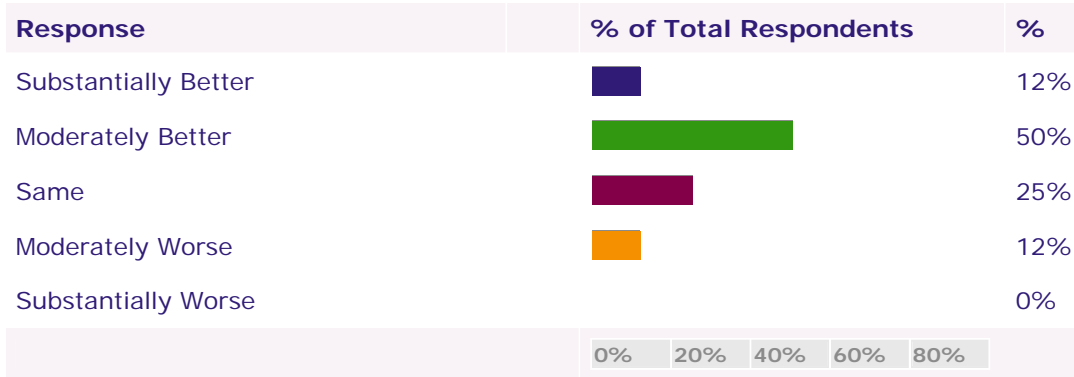




11 - How do you see the revenue growth for your portfolio companies in the upcoming quarter?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



12 - What are main the challenges for your portfolio companies?

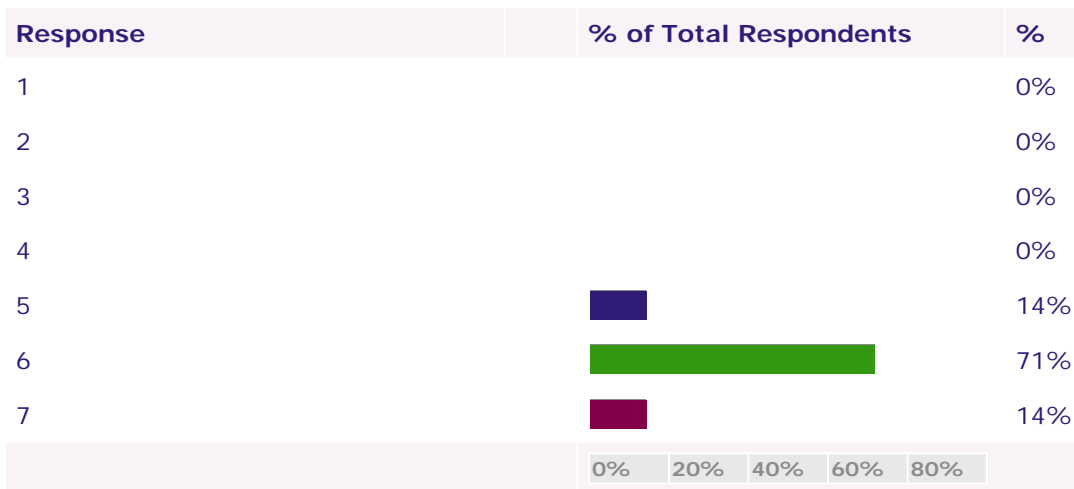
Rate in order of significance

One = most challenging

Seven = least challenging

- **Availability of Capital**

(Each Respondent could choose only **ONE** of the following options:)



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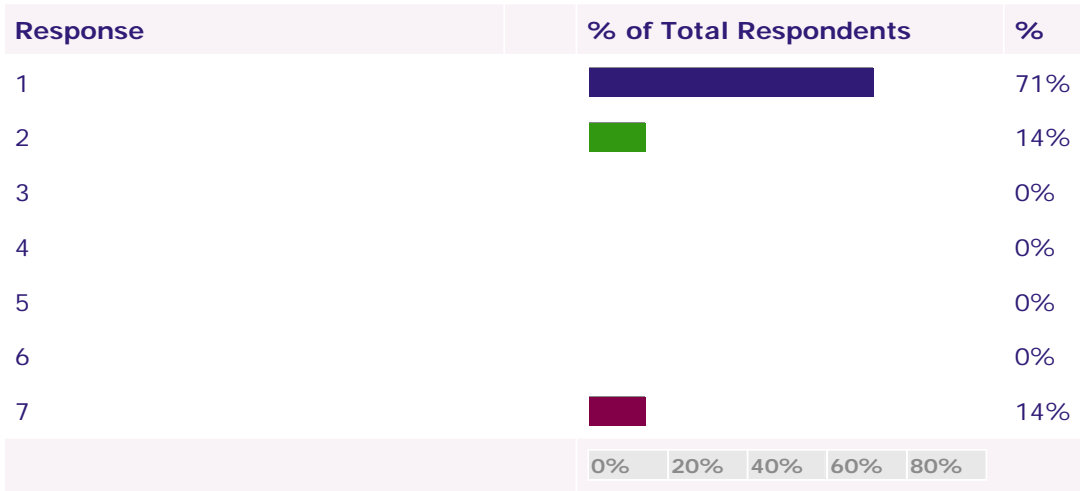




Rate in order of significance

One = most challenging
Seven = least challenging

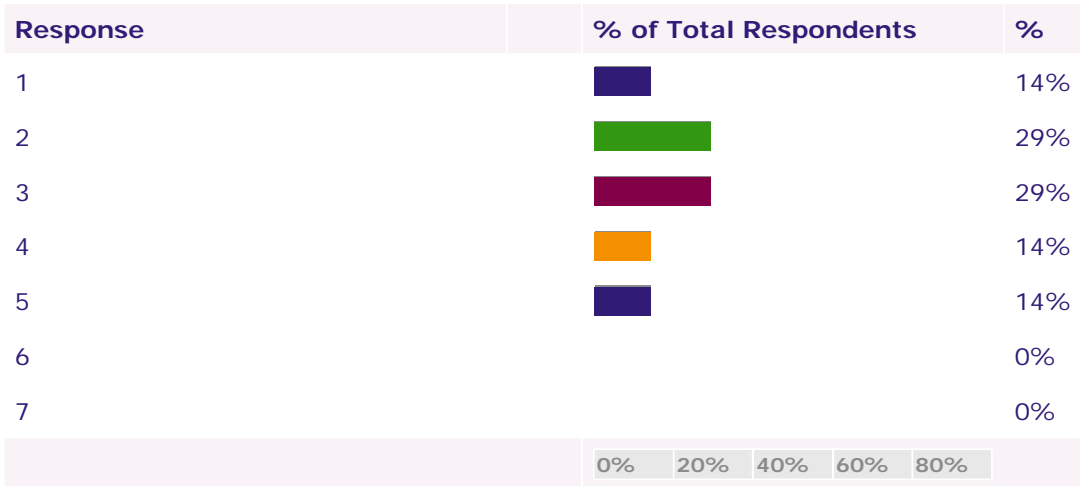
- **Attracting & Retaining Talent: Senior Leadership**
 (Each Respondent could choose only **ONE** of the following options:)



Rate in order of significance

One = most challenging
Seven = least challenging

- **Attracting & Retaining Talent: Staff**
 (Each Respondent could choose only **ONE** of the following options:)



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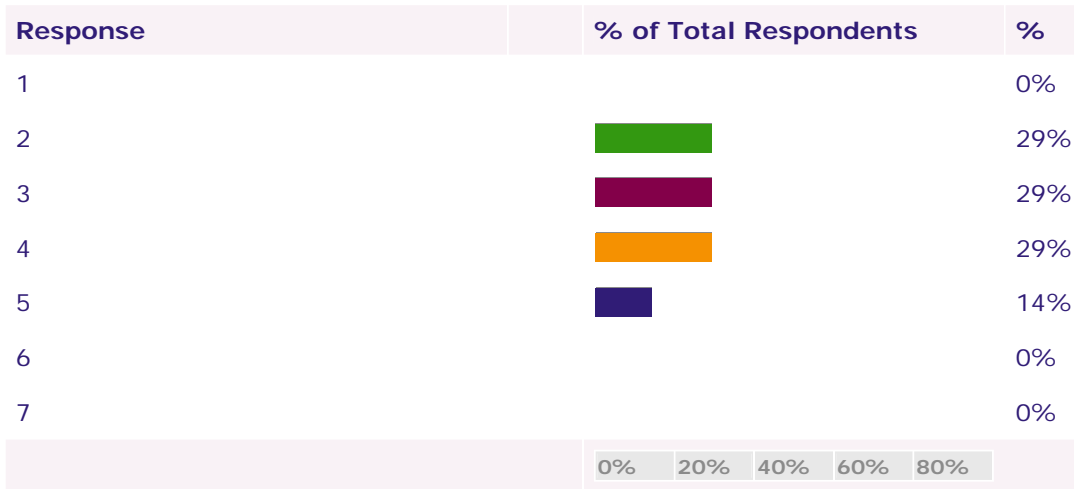


Rate in order of significance

One = most challenging
Seven = least challenging

• **Overall Market Growth**

(Each Respondent could choose only **ONE** of the following options:)

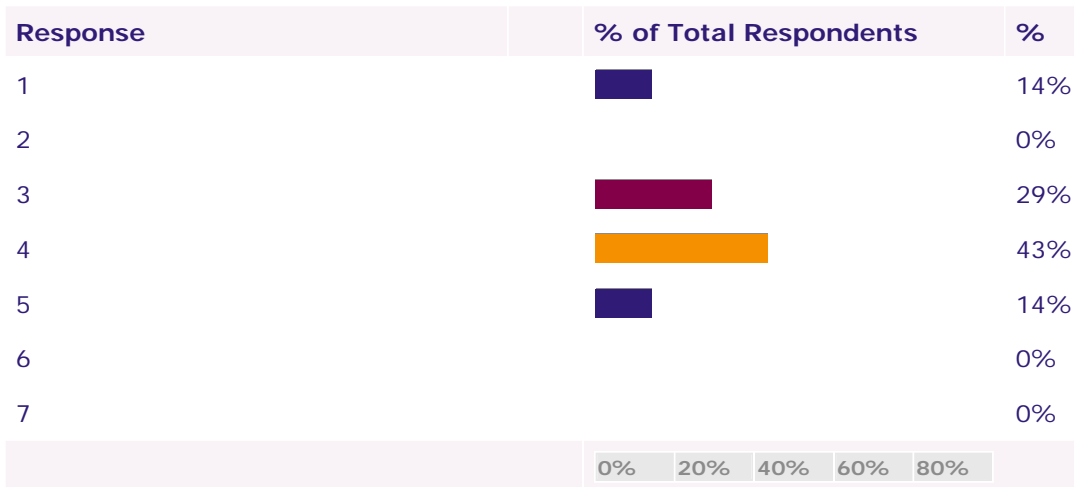


Rate in order of significance

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• **Competition**

(Each Respondent could choose only **ONE** of the following options:)



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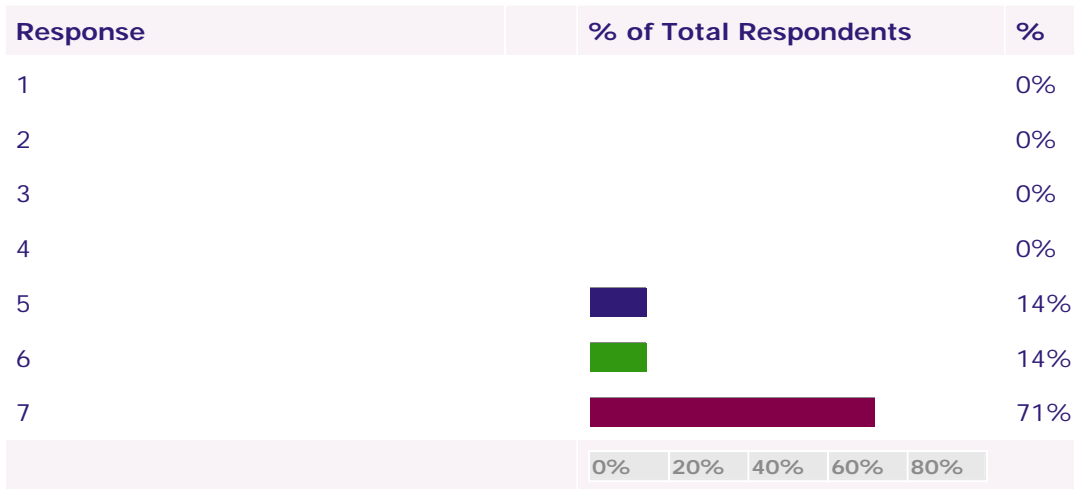




Rate in order of significance

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Seven = least challenging

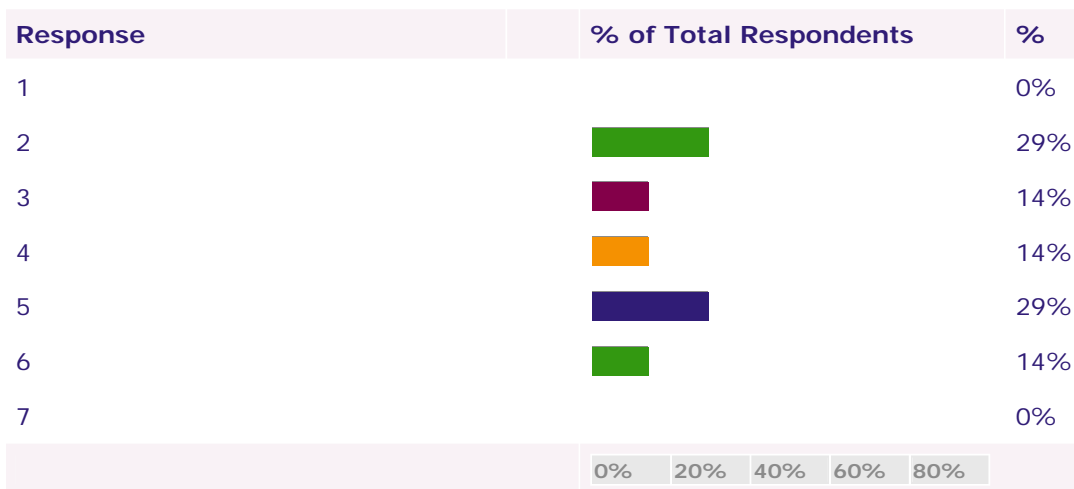
- **Local Business Conditions (e.g. Taxation, Transportation)**
 (Each Respondent could choose only **ONE** of the following options:)



Rate in order of significance

One = most challenging
Seven = least challenging

- **National Business Conditions**
 (Each Respondent could choose only **ONE** of the following options:)



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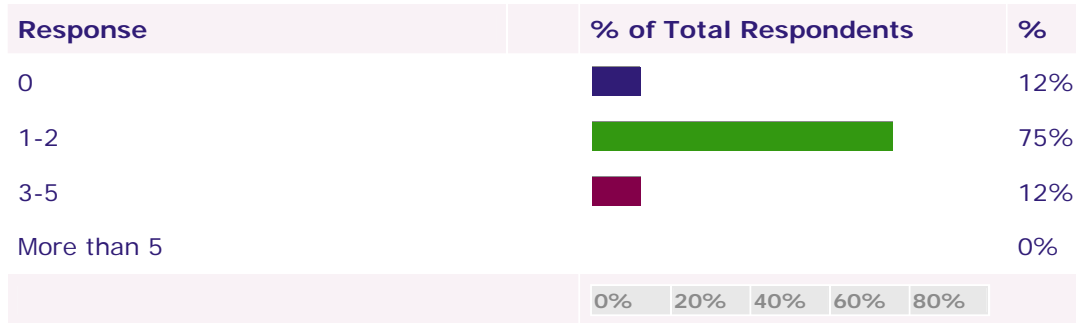
VENTURE CAPITAL INVESTMENT OUTLOOK

(Not Applicable for firms which are not actively investing)

13 - How many NEW investments in Washington State companies do you plan to make this quarter?

- Select one of the following

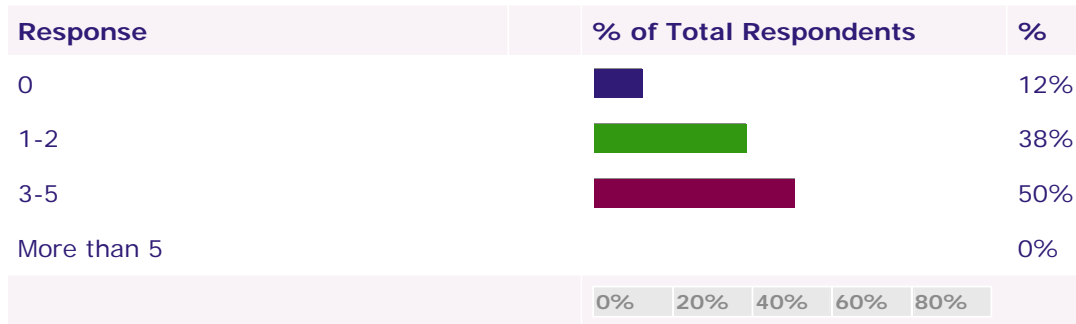
(Each Respondent could choose only ONE of the following options:)



14 - How many FOLLOW-ON investments in Washington State companies do you plan to make this quarter?

- Select one of the following

(Each Respondent could choose only ONE of the following options:)



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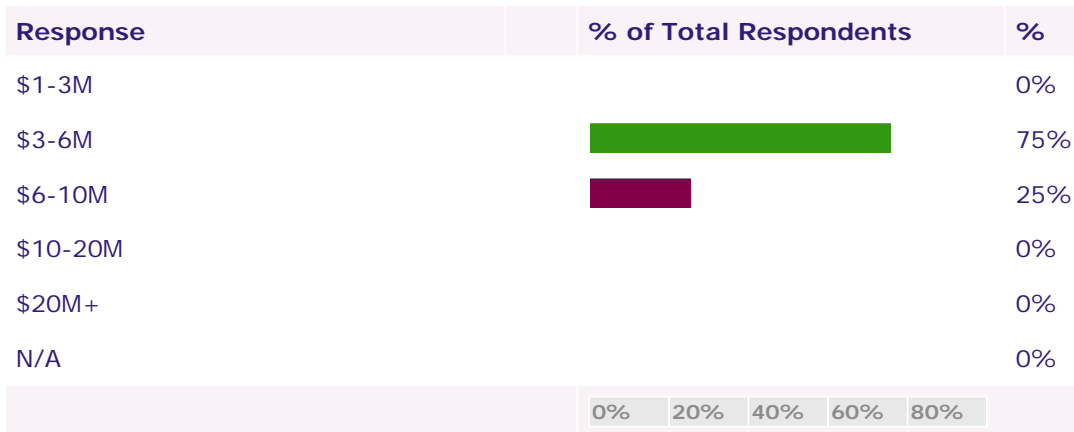




15 - What do you expect the average size of the NEW investment rounds to be this quarter?

- **Select one of the following**

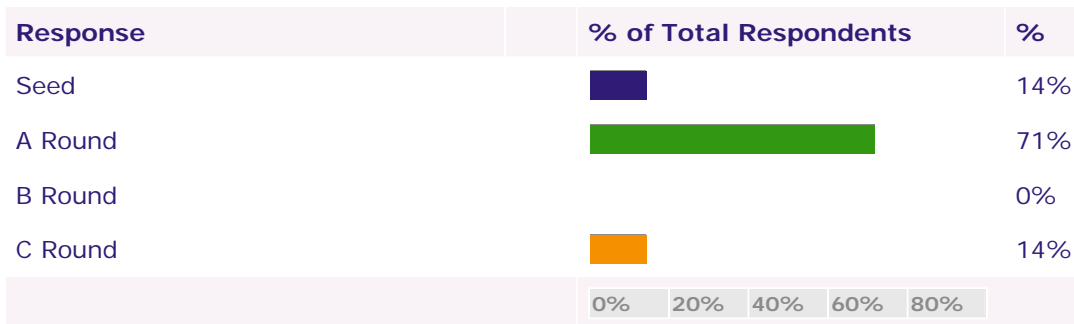
(Each Respondent could choose only **ONE** of the following options:)



16 - What do you expect the general stage of NEW investment for this coming quarter?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



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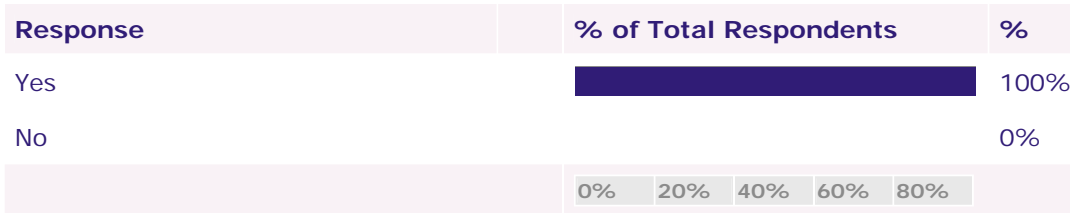




17 - Do you plan to co-invest with out-of-Washington State firms this coming quarter?

- **Select one of the following**

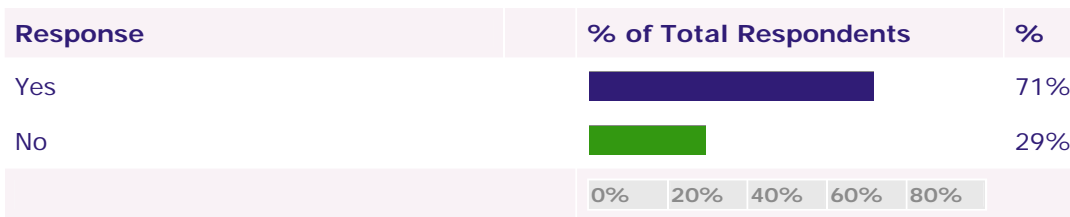
(Each Respondent could choose only **ONE** of the following options:)



18 - Do you plan to co-invest with in-state VC firms this coming quarter?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



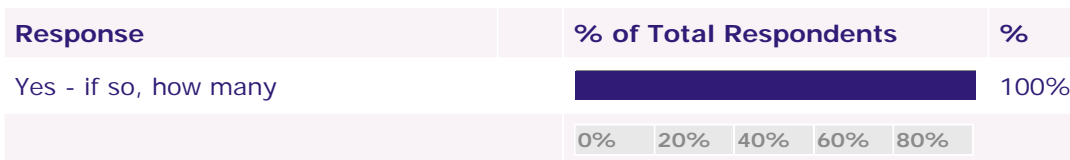
19 - Do you expect any of your portfolio companies to go public this coming quarter?

One respondent answered "yes."

20 - Do you expect any of your portfolio companies to be acquired this coming quarter?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



Average number of companies = 2.5

Median number of companies = 2

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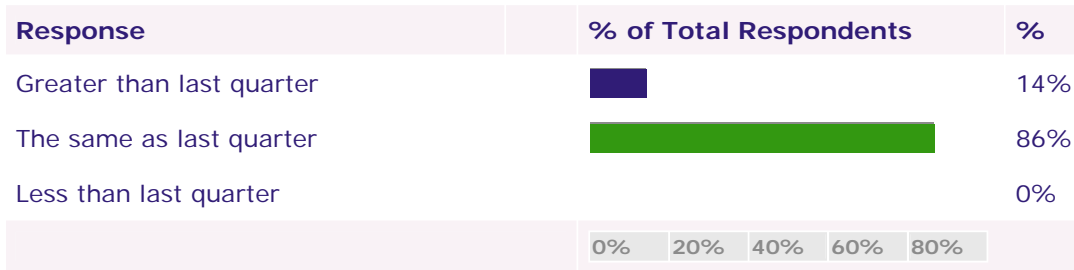




21 - How would you characterize the current competition from other VC's in or outside the region?

- **Select one of the following**

(Each Respondent could choose only **ONE** of the following options:)



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