

Opening Remarks

Understanding Today's
Venture Investing Environment
"Life in a Blender – Part Deux"

Conference Chairman
Robert R. Ackerman, Jr.
Managing Director - Allegis Capital

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Corporate Venturing & Strategic Investing Conference
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A Tale of Two Markets

- **2008 Started Reasonably Well (Q1-Q3)**
 - \$22.6 billion invested in 2,930 deals (through Q3)
 - Slightly Ahead of 07' \$\$\$ Pace (Fewer Investments)
(Compared to \$29.4 billion invested in 3,813 deals in 2007)
- **Then the Wheels came off the Bus (Q4)**
 - Investing almost “Stopped” in Q4 (off more than 25%)
 - Market Seized up over 6 Weeks (versus 5 quarters in 2000-2001)
- **Venture Reactions:**
 - Preserve Capital at All Costs
 - Reserves for Existing Portfolio Companies
 - “We have the Wrong Portfolio”
 - “Wait & See” – Why Try to Catch a Falling Knife

And the News gets Worse

- **Six (6) Venture-backed IPOs in 2008**
 - Lowest Total since 1977
 - Two (2) Quarters with NO IPOs
- **M & A Exits Drop Materially**
 - 260 Venture-backed exits in 08' (360 in 2007)
 - 37 in Q4-08'
 - Lowest Number since 1999
 - Average Deal Size did Grow
- **10 Year Venture Returns about to Drop Significantly**
 - IRR 17.2% (3/31/08) IRR 19.3% (6/30/07)
 - 1999 "Peak Returns" about to drop from the 10-year average


A network diagram consisting of several circular nodes connected by thin, light blue lines. Three nodes are highlighted with a white fill and a light blue outline, positioned at the top, middle, and bottom of the network structure. The text "Capital Inflows are Dropping" is overlaid on the middle highlighted node.

Capital Inflows are Dropping

Venture Capital Fundraising*

Year	First Time Funds	Follow-On Funds	Total Number of Funds	VC Raised (\$M)
2003	53	98	151	10,622.8
2004	56	154	210	19,144.8
2005	61	171	232	28,557.0
2006	53	185	238	31,756.4
2007	60	190	250	36,105.7
YTD 2008	36	142	178	24,326.1
Quarter				
Q1 '07	21	62	83	6,636.8
Q2 '07	16	67	83	8,641.9
Q3 '07	16	62	78	8,595.5
Q4 '07	25	60	85	12,231.5
Q1' 08	10	60	70	6,959.2
Q2' 08	22	54	76	9,247.7
Q3' 08	10	45	55	8,119.2

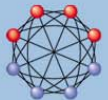
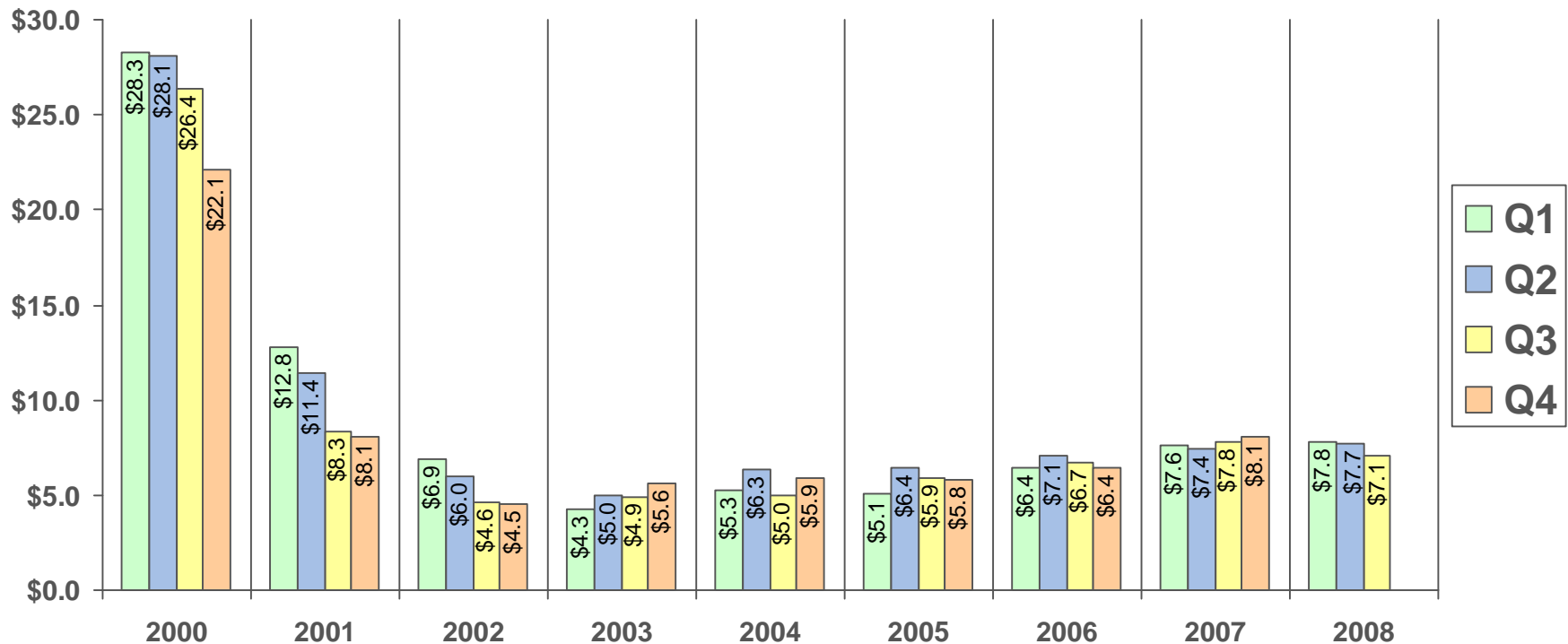
*These figures take into account the subtractive effect of downsized funds
 Data current as of October 13, 2008
 Source: Thomson Reuters & National Venture Capital Association



**Capital Outflows – Stable Early
but
*Falling Precipitously***

MoneyTree Total Investments: 2000 – 2008

(\$ in billions)



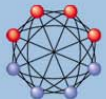
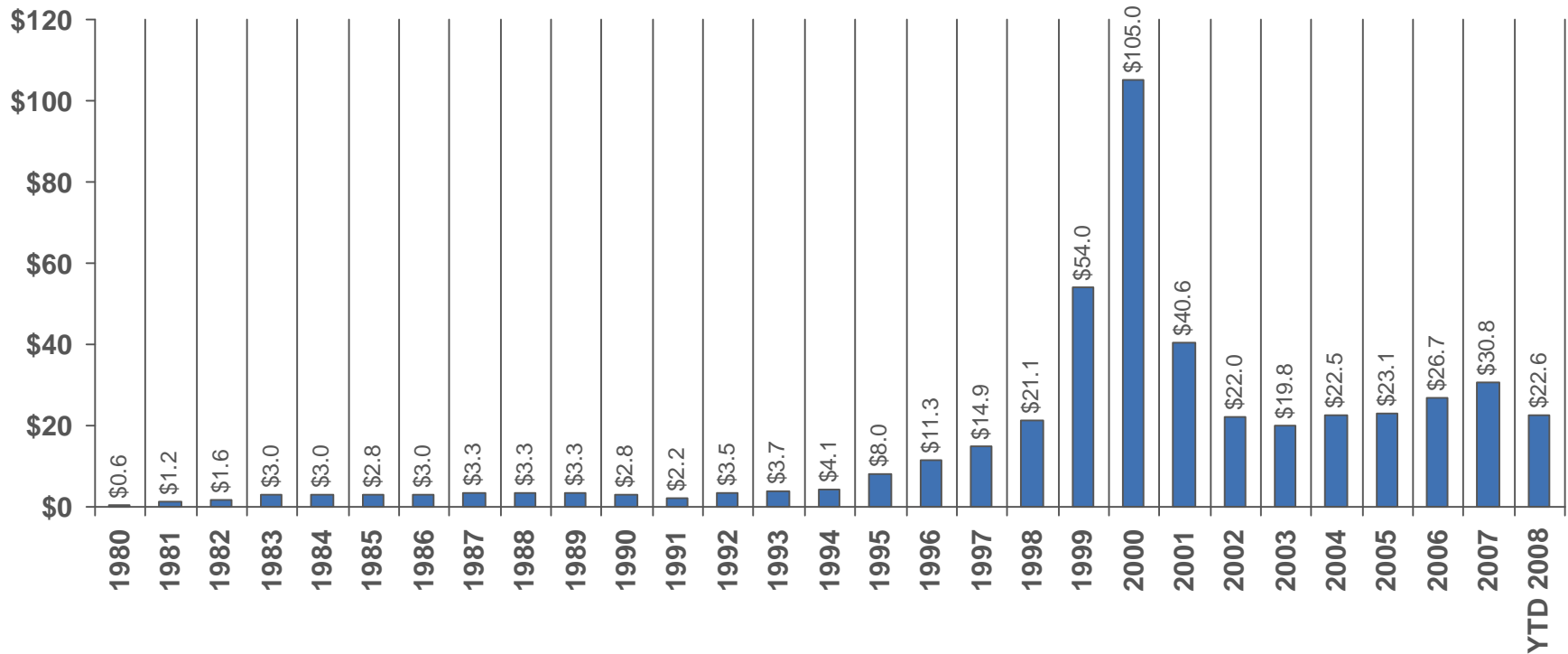
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based on data from Thomson Financial

Investment Level Down From 2007

Annual Venture Capital Investments 1980 to YTD Q3 2008

(\$ in billions)



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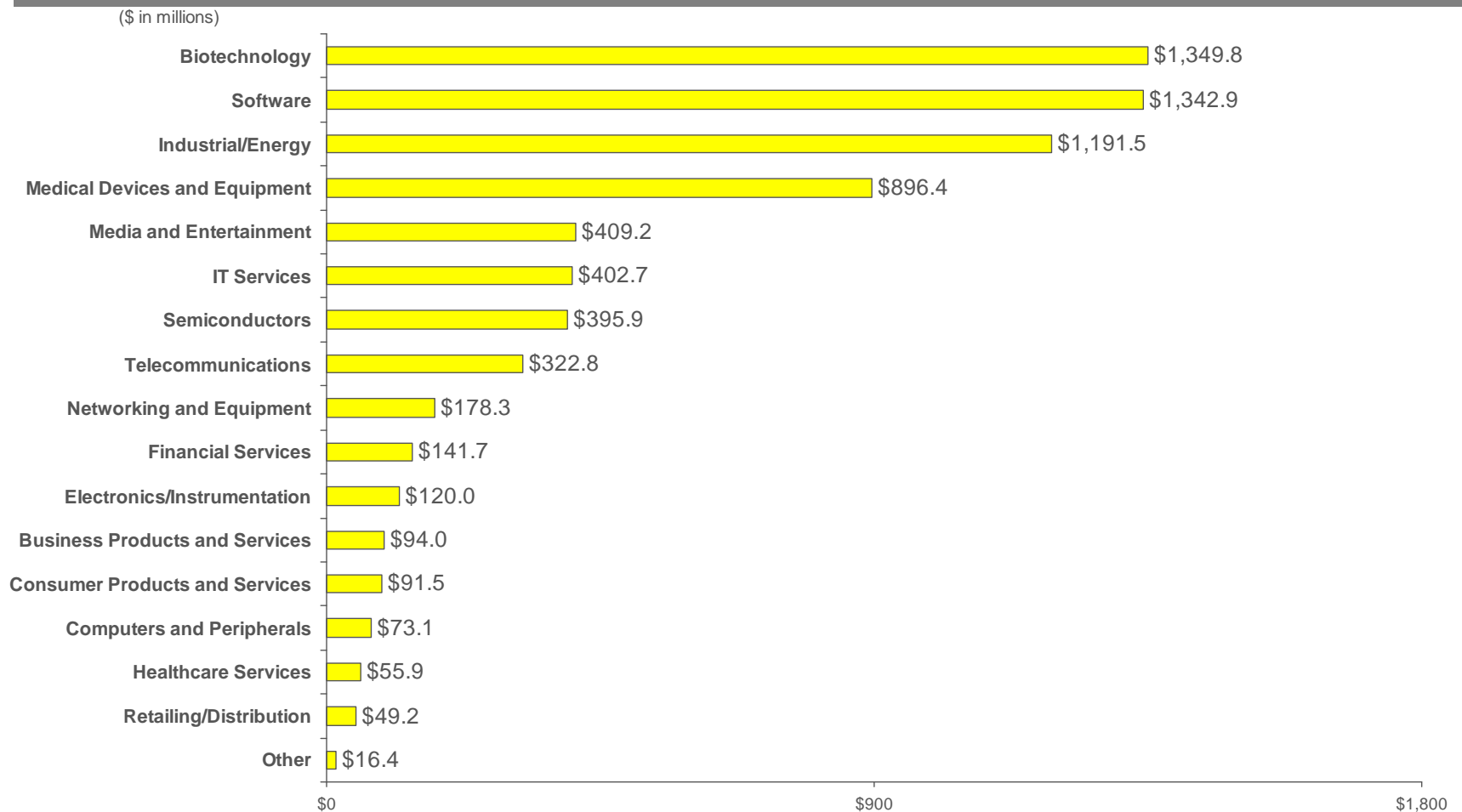
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Where Are The \$'s Going

Investments by Industry: Q3 2008

Q3 2008 Total: \$7,131.3 million in 907 deals



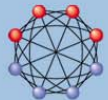
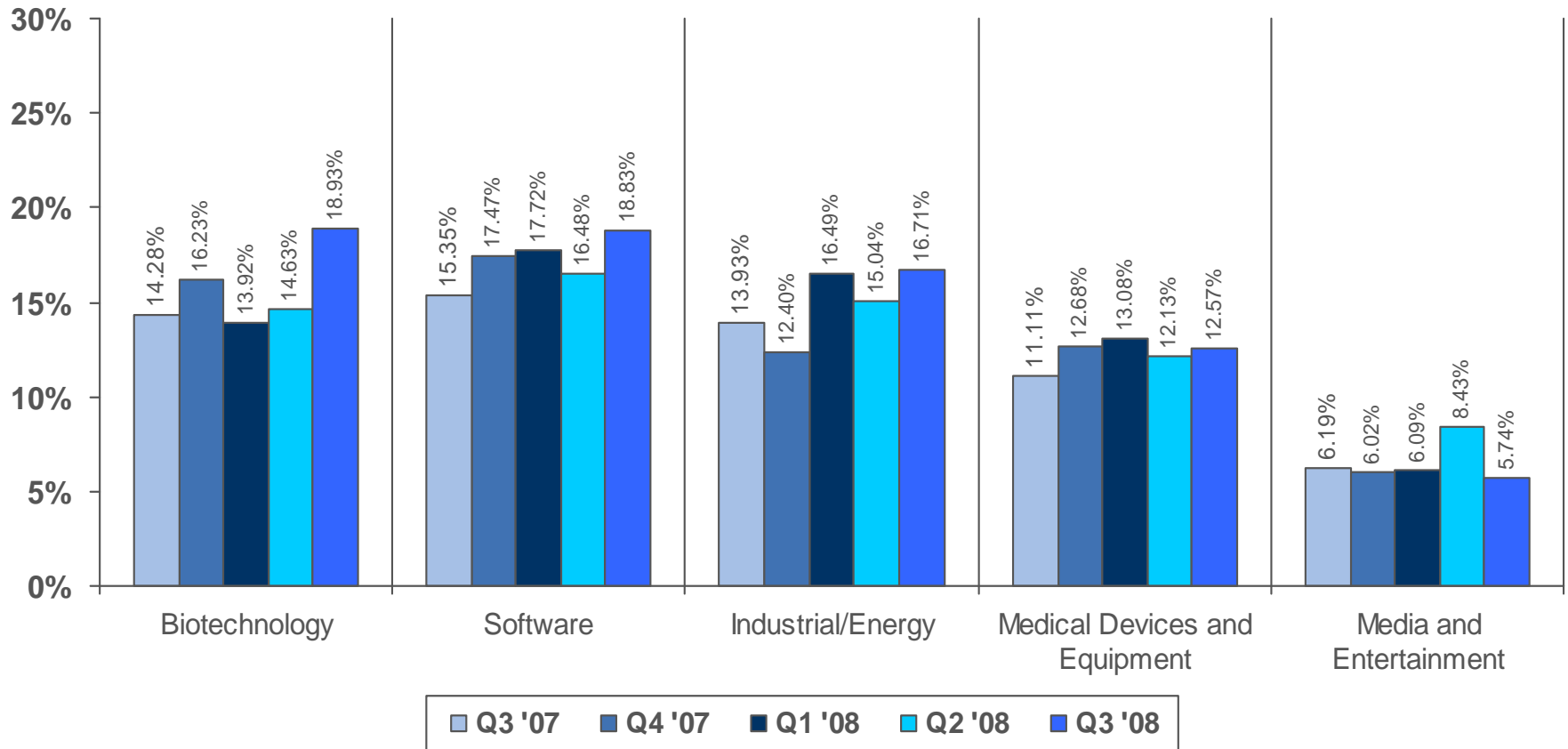
Investments by Industry: Q3 2008

Industry	# of Deals	% Change \$ from Q2 '08
Biotechnology	114	20.37%
Software	214	6.31%
Industrial/Energy	96	3.32%
Medical Devices and Equipment	93	-3.57%
Media and Entertainment	92	-36.67%
IT Services	62	-33.24%
Semiconductors	50	7.39%
Telecommunications	45	-37.71%
Networking and Equipment	21	11.32%
Financial Services	18	0.66%
Electronics/Instrumentation	18	-6.48%
Business Products and Services	29	-47.86%
Consumer Products and Services	18	-29.92%
Computers and Peripherals	14	-51.18%
Healthcare Services	13	-9.42%
Retailing/Distribution	6	-55.09%
Other	4	n/a
TOTAL	907	-6.96%

Investment in Biotechnology rise in 2008

Top 5 Industries – Q3 '07 to Q3 '08

(% of Total Dollars)



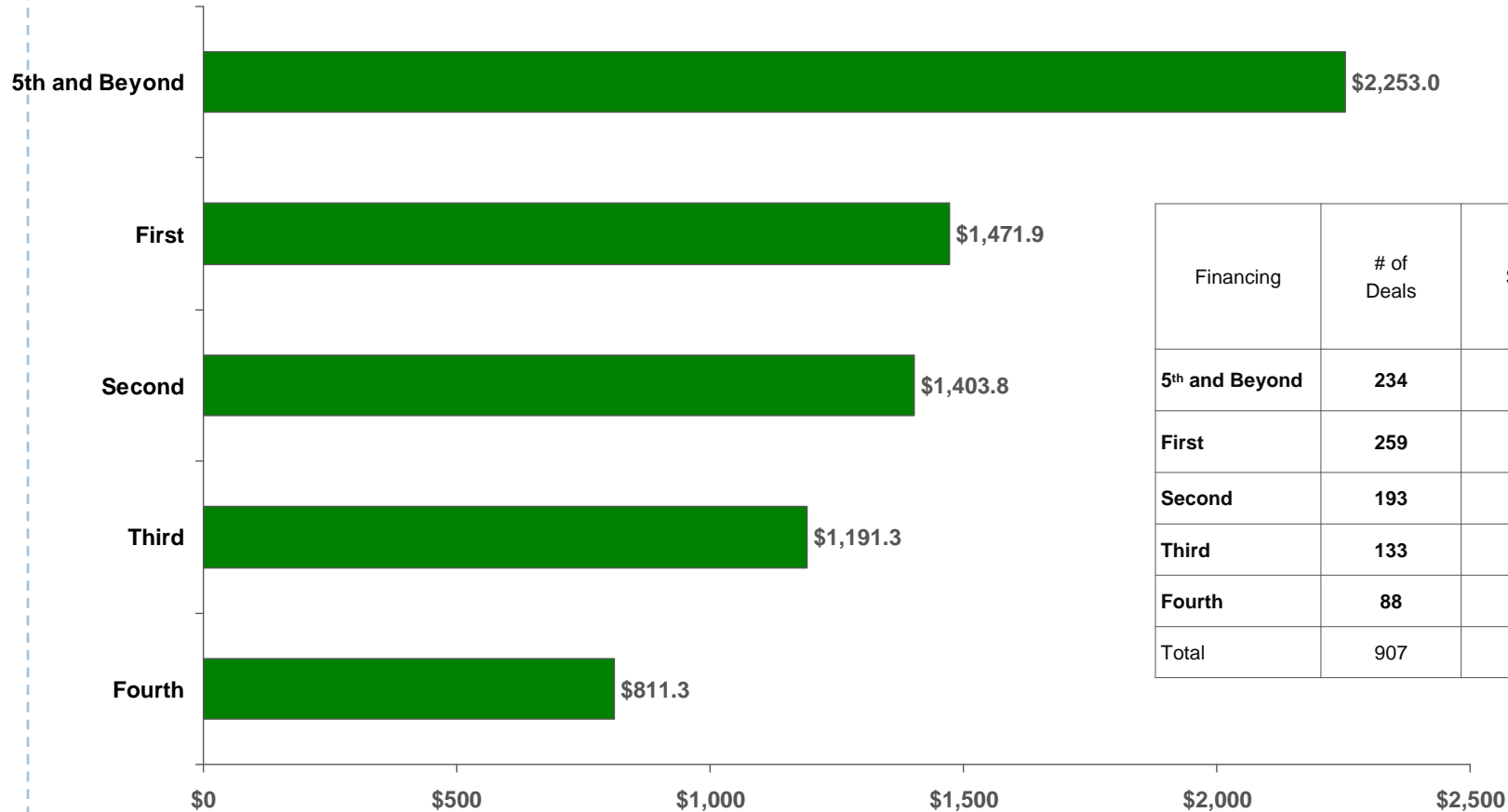
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Decrease in First Time Financing in 2008

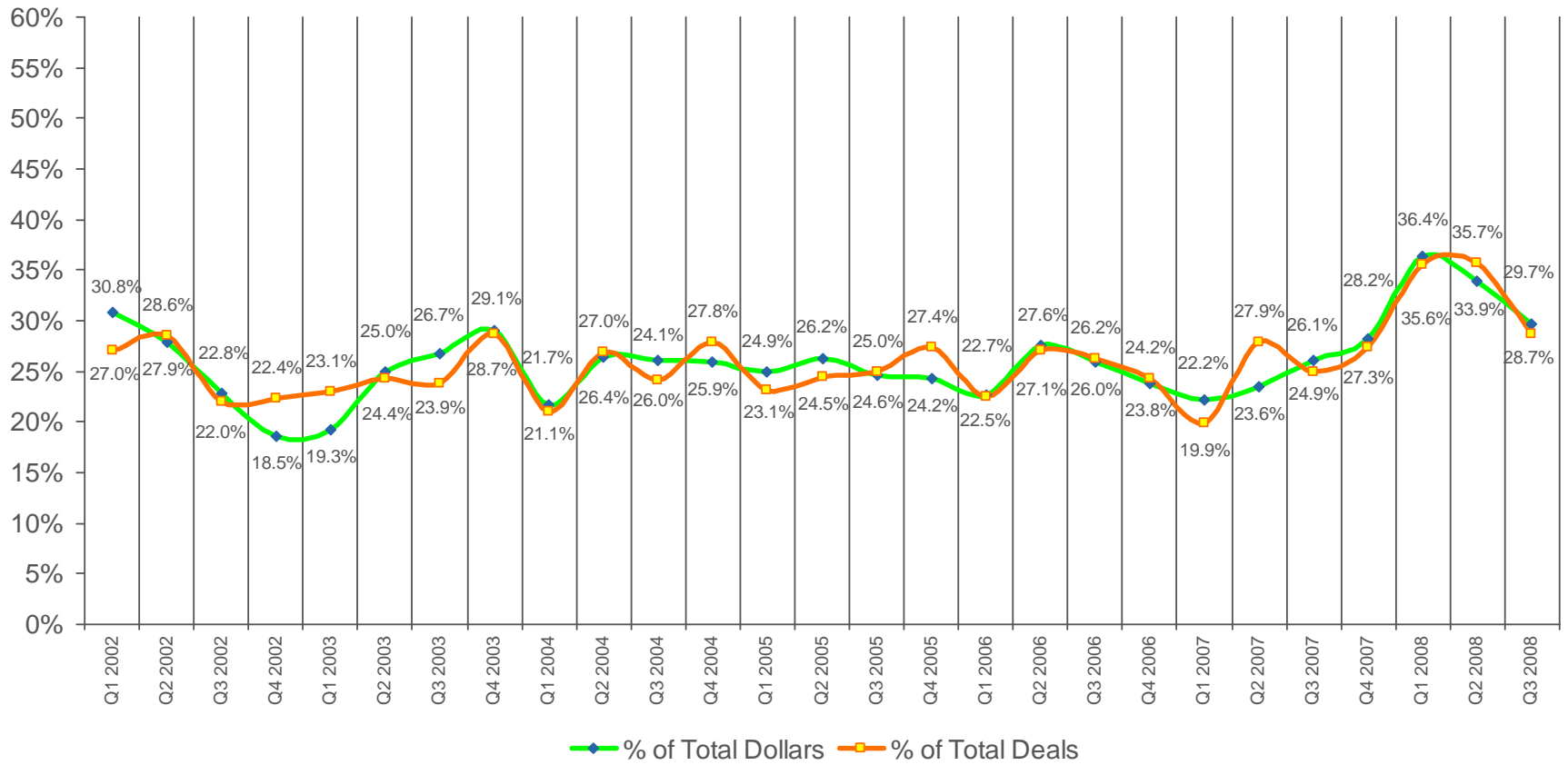
Q3 2008 Total: **\$7,131.3 million in 907 deals**

(\$ in millions)

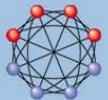


Financing	# of Deals	% Change in \$ Amount from Q2 2008
5th and Beyond	234	-11.11%
First	259	-12.34%
Second	193	-4.66%
Third	133	5.96%
Fourth	88	-5.06%
Total	907	-6.96%

First Sequence Financing – Percent of Total U.S. Investments



◆ % of Total Dollars ■ % of Total Deals



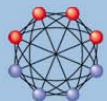
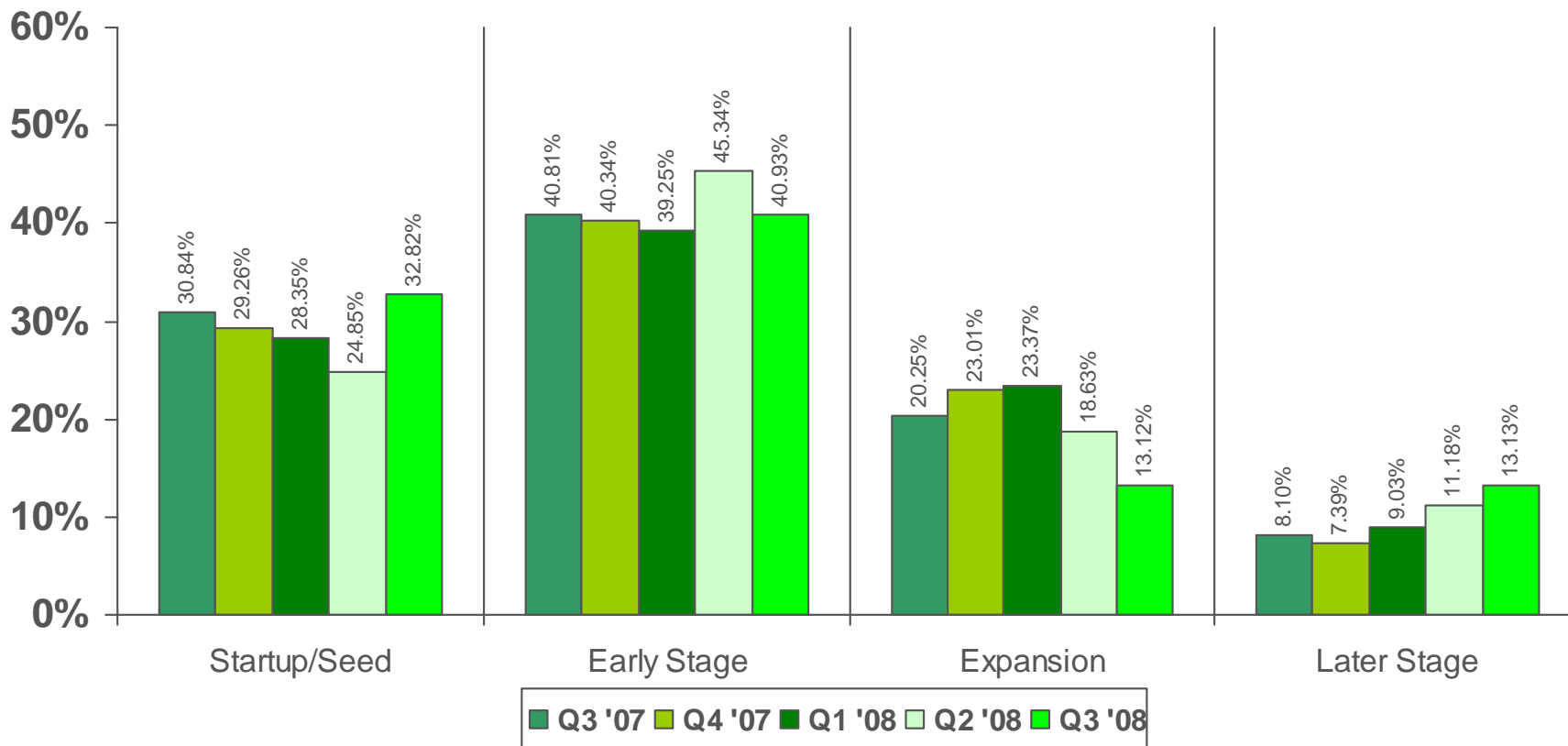
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Quarterly Percent of Total First Sequence Deals

Stage Development – Q3 2007 to Q3 2008

(% of first sequence deals)

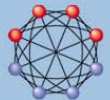
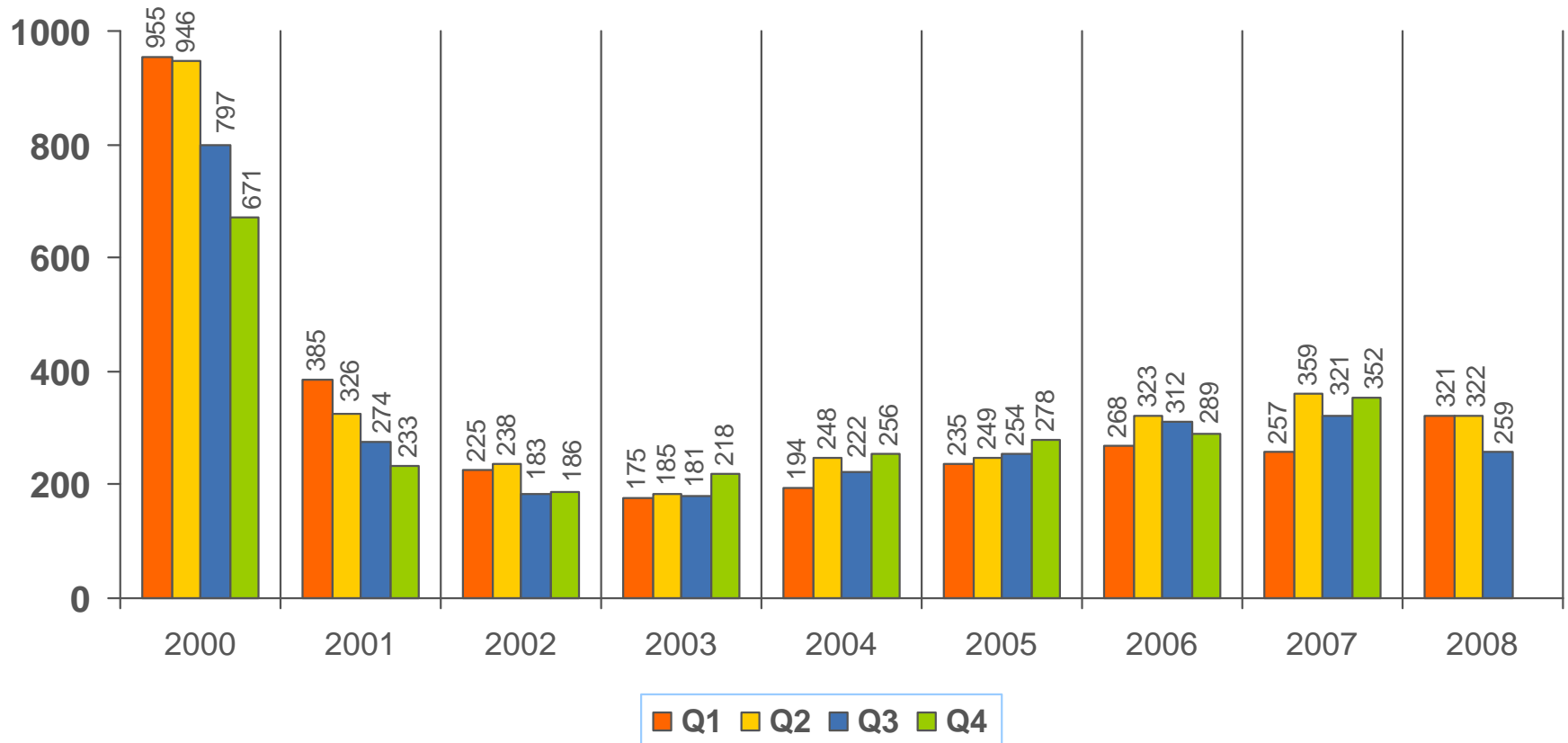


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First Sequence Financing – Number of Deals

First Sequence Deals

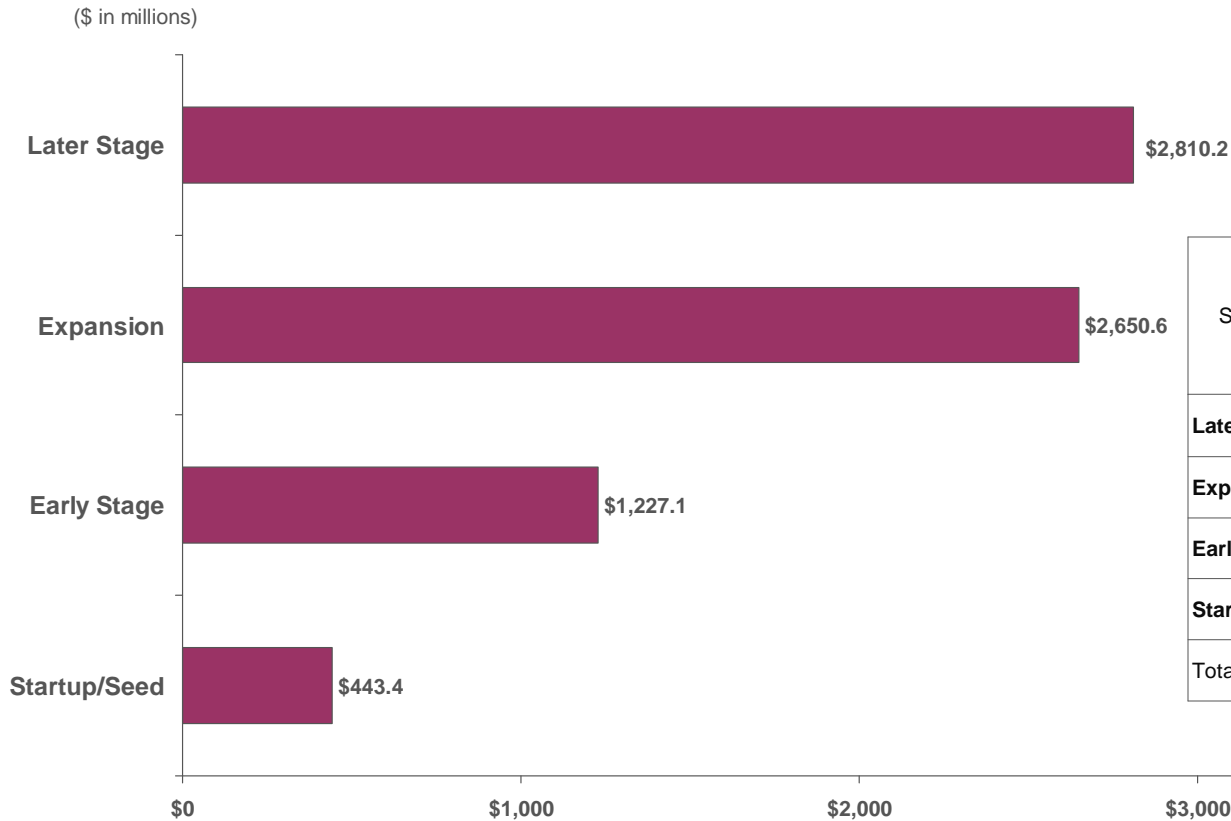


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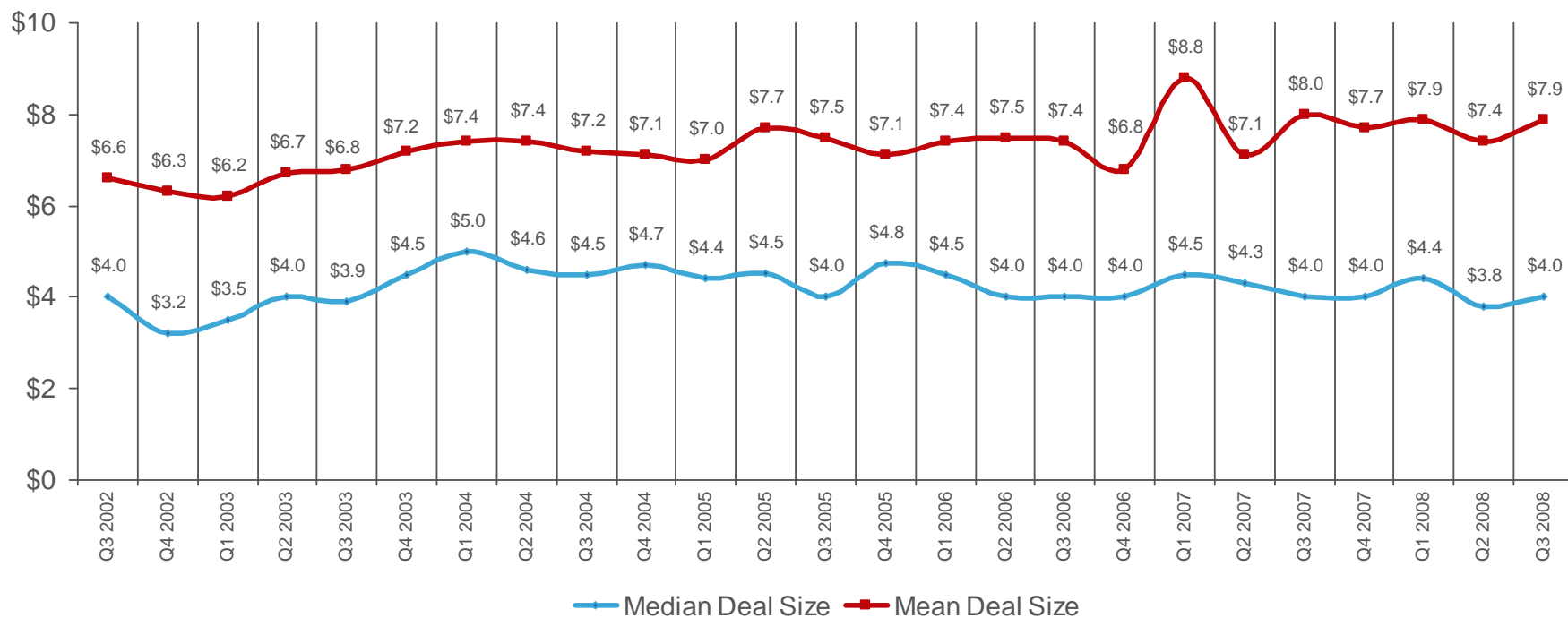
Increase in Startup/Seed Financing

Q3 2008 Total: **\$7,131.3 million in 907 deals**



Stage of Development	# of Deals	% Change in \$ Amount from Q2 2008
Later Stage	294	-14.09%
Expansion Stage	263	3.61%
Early Stage	223	-13.91%
Startup/Seed	127	8.15%
Total	907	-6.96%

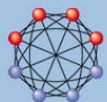
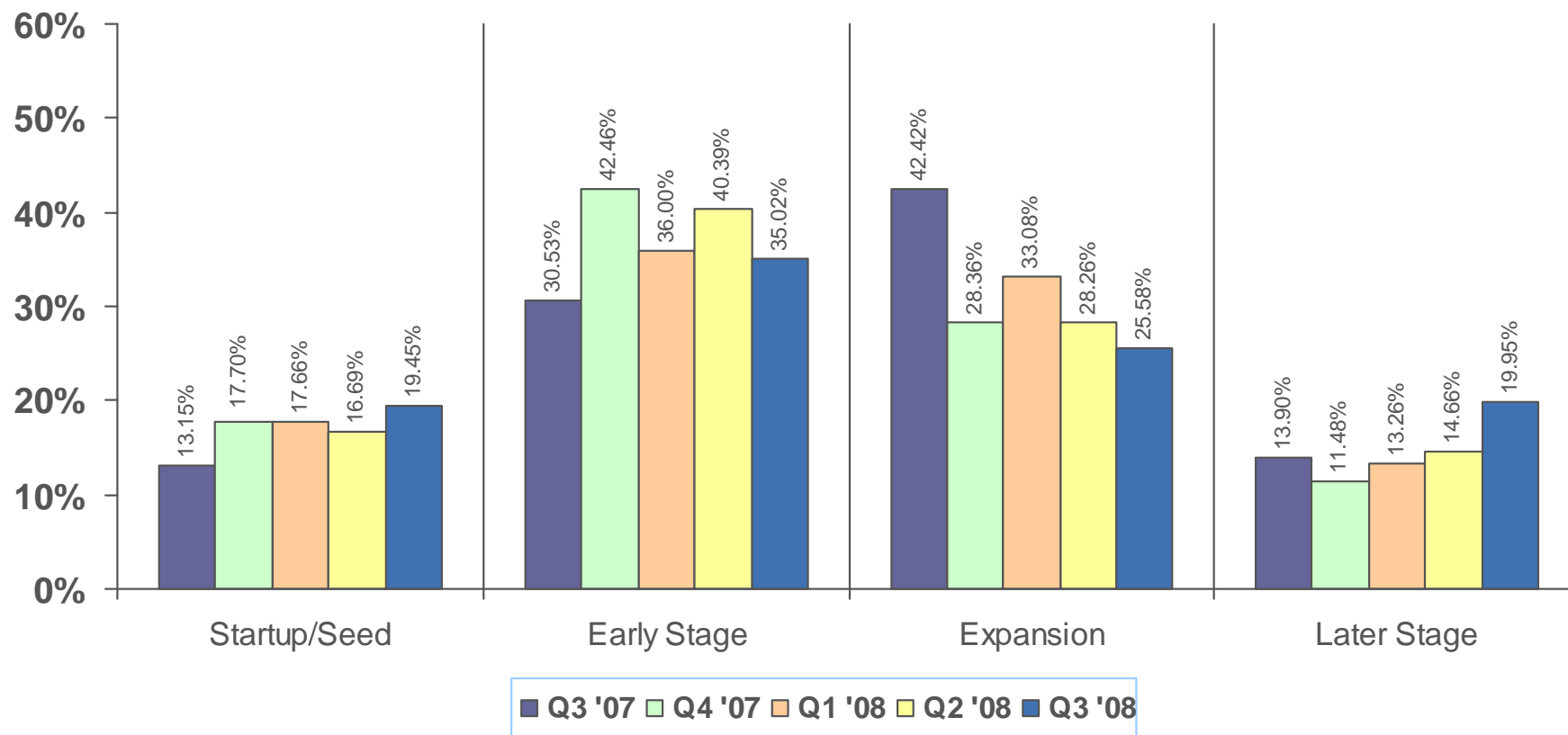
Median Deal Size vs. Mean Deal Size – Quarterly Total U.S. Investments



Quarterly Percent of Total First Sequence Dollars

Stage Development – Q3 2007 to Q3 2008

(% of first sequence dollars)



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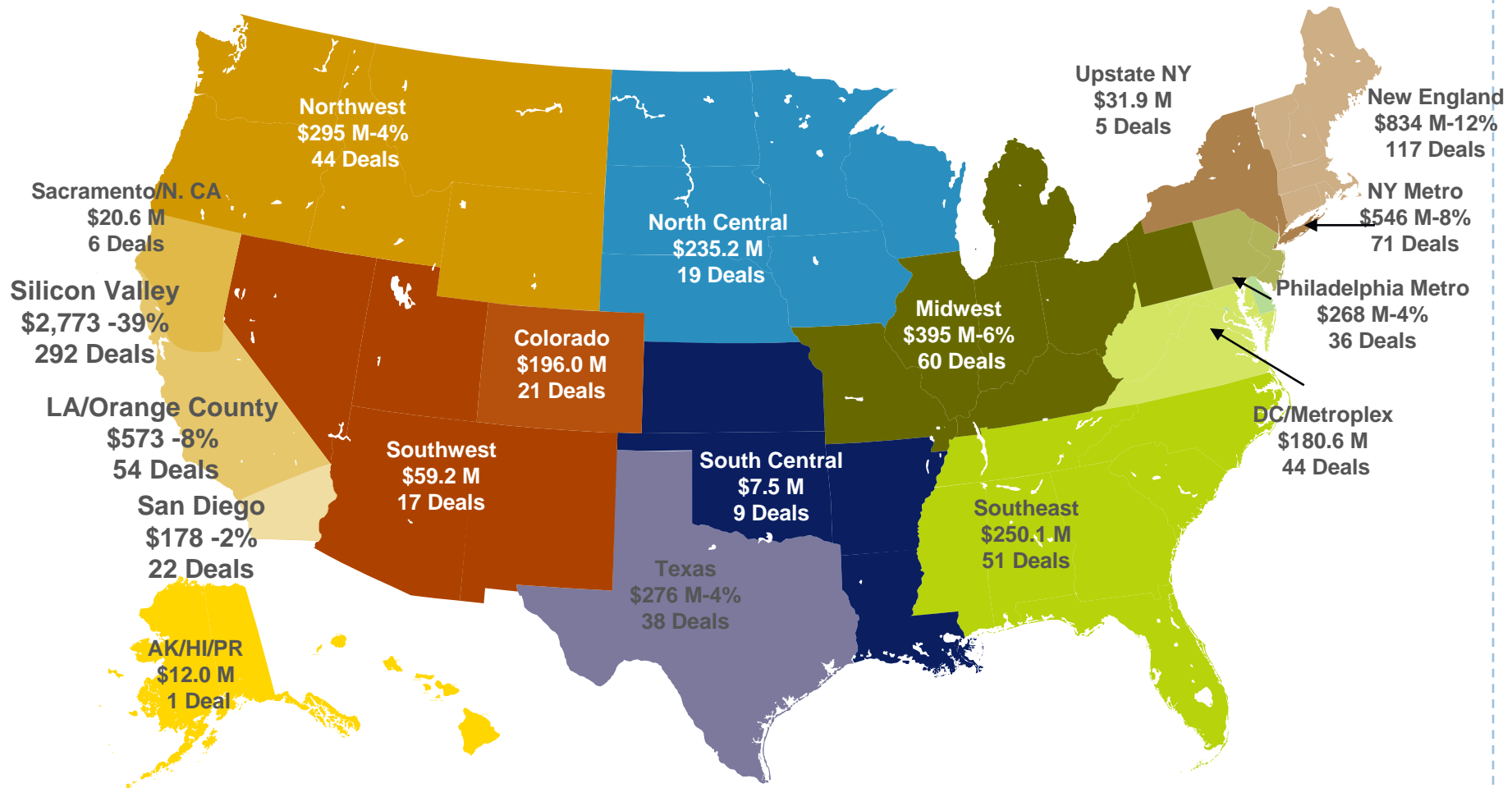
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A network diagram consisting of three large, light blue circular nodes. The top node is at the top left, the middle node is in the center, and the bottom node is at the bottom right. These three nodes are interconnected with a dense web of thin, light blue lines that also connect to other, smaller nodes that are mostly obscured or cut off by the left edge of the frame. The overall structure is a complex, interconnected graph.

Where's The Action

Investments by Region: Q3 2008

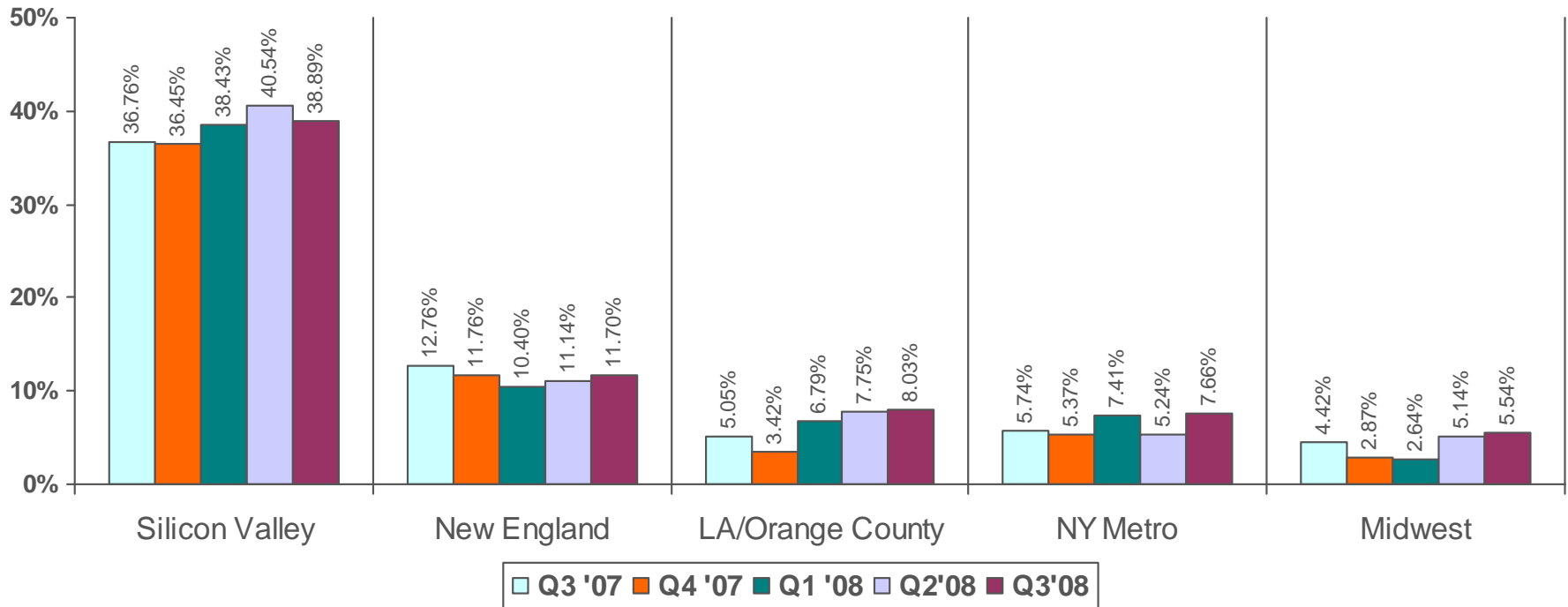
Q3 2008 Total Investments - \$7,131.3 million in 907 deals



Quarterly Percent of Total U.S. Investments

Top U.S. Regions Q3 '07– Q3 '08

(% of Total Dollars)



A network diagram on the left side of the slide, consisting of several circular nodes connected by thin, light blue lines. Three of these nodes are highlighted with a larger, semi-transparent light blue circle. The text "Heading For The 'Exits'" is centered over the middle of these three highlighted nodes.

Heading For The "Exits"

Analysis of Venture-Backed IPO and M&A Activity

Date	Number of IPOs*	Total Venture-Backed Offering Size (\$M)	Average Venture-Backed Offering Size (\$M)	Number of Venture-backed M&A deals	Average M&A deal size**
2003	29	2,022.7	69.8	284	62.7
2004	94	11,378.0	121.0	345	85.1
2005	57	4,485.0	78.7	351	104.9
2006	57	5,117.1	89.8	369	116.8
2007 Q1	18	2,190.6	121.7	83	156.6
2007 Q2	25	4,146.8	165.9	86	110.3
2007 Q3	12	945.2	78.8	102	207.9
2007 Q4	31	3,043.8	98.2	88	211.3
2007	86	10,326.3	120.1	359	177.5
2008 Q1	5	282.7	56.6	70	128.7
2008 Q2	0	0.0	n/a	71	197.7
2008 Q3	1	187.5	187.5	58	146.4

* Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile
 **Only accounts for deals with disclosed values
 Source: Thomson Reuters and National Venture Capital Association

Thomson Financial U.S. Private Equity Performance Index (PEPI)

(Investment Horizon Performance through 06/30/2008)

Fund Type	1 Year	3 Year	5 Year	10 Year	20 Year
Early/Seed VC	2.1	4.9	5.0	32.9	21.4
Balanced VC	2.5	10.8	11.9	14.4	14.7
Later Stage VC	15.3	12.4	11.1	8.5	14.5
All Venture (through 03/31/08)	13.3	9.6	9.0	17.2	16.8
All Venture (through 06/30/07)	25.5	11.3	5.1	19.3	16.4
NASDAQ	-11.1	3.6	7.0	1.9	9.2
S&P 500	-13.8	2.4	5.5	1.2	8.0

Source: Thomson Reuters/National Venture Capital Association

*The Private Equity Performance Index is based on the latest quarterly statistics from Thomson Reuters' Private Equity Performance Database analyzing the cashflows and returns for over 1941 US venture capital and private equity partnerships with a capitalization of \$828 billion. Sources are financial documents and schedules from Limited Partner investors and General Partners. All returns are calculated by Thomson Reuters from the underlying financial cashflows. Returns are net to investor after management fees and carried interest.



A network diagram consisting of three circular nodes connected by a dense web of light blue lines. The nodes are positioned at the top, middle, and bottom of the left side of the frame. The lines represent connections between the nodes and other parts of the network, creating a complex, interconnected structure.

So, What's It All Mean...

Summary

- **Capital In-Flows Slump**

- Big Jump in 2007 - \$34.6B (Surprise Increase of almost 40%) – Bubble Sectors
- Drop to \$27.9B in 2008 (20%)
 - Q4 Dropped to \$3.3B from \$8.3B in Q3
- It Does Not Get Better in Q1 – 09'

- **Capital Out-Flows Stay Moderate then Drop**

- Close to Parity with 2007 through Q3 (More \$\$\$ / Fewer Deals)
- Q4' showed significant drop (\$7.1B down to \$5.5B) Lowest Since Q1 – 05'
- Clean-Tech only major growth area: \$8.4B (up 400% since 2005)
- BioTech Surpasses Software
- Expect Seed & Early-Stage to be hit Hard
- *"Desperately Seeking Alpha"*

- **Valuations**

- Free - Fall
- Expect 50% drop to be the Norm

- *You Can't Navigate The Road Ahead through your Rear View Mirror*

A network diagram consisting of three large, light blue circular nodes arranged in a triangle. These nodes are connected to each other and to a dense web of smaller, fainter nodes and lines that form a complex network structure on the left side of the image. The text "Looking Forward..." is centered over the middle node.

Looking Forward....

The VC Environment...

● The VC Industry

- In for a Period of Significant Recalibration & Restructuring (2-3 Years)
- Successful firms will focus on “old fashioned VC” or become Asset Managers
- Material reduction in the number of venture firms (-33%?)
- **When all is Said and Done – A Healthier Environment**

● For Start-Up Companies

- Innovation is Alive and Well but the Bar for Funding is a Lot Higher
- Less Appetite for “We will succeed because what we are doing is COOL”
- Better Ideas, Stronger Teams, Greater Discipline will get Funded
 - IronPort was started in 2001 and Funded by Allegis 2002: Cisco purchased in 2007 for \$830M
- **Indicators are for a Period of Greater Return and Success**

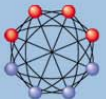
● Corporate Venture Investors

- The inclination will be to “Pull the Horns” in – Corporate Financial Pressures
- At the same time as the Competitive Environment continues to push forward
- Start-Up Companies are More Likely than Ever to Seek Corporate Partnerships
- **Time to Re-Visit PARTNERING with the Experienced Venture Firms (LEVERAGE)**

● This too will Pass but only the Strong will Survive

Planning for Success

- **Looking to Exits – Assume there are NO IPOs**
 - You have no visibility into the next IPO market
 - You have even less control or influence
 - M & A remains a viable path to Liquidity – *IF YOU ARE CREATING VALUE*
 - Corporate M & A
 - Emergence of the Private Equity Buyer
- **Control the Fundamentals for Profitable Exits**
 - Solve “Real” Problems
 - Watch Your Cost Basis
 - Capital Efficiency is Critical
- **Syndicates are Essential**
 - Great Companies don’t Fail – they run out of CASH
 - Pre-Emptively Recapitalize When Necessary or the Opportunity Presents Itself
 - Strong Syndicates are CRITICAL – Not all Co-Investors are Equal





Profiting from Turmoil...

The Allegis Playbook...

- **Exploit the Market Downturn with Established Companies**
 - Take Advantage of Financing Difficulties for Quality Companies
 - Provide Capital when others Can't
 - Nearer term exits
- **Actively Maintain Seed & Early-Stage Investment Focus**
 - Create "Value" from "Ideas"
 - Control the Fundamentals for Profitable M & A exits
 - Greatest leverage to generate returns
 - Syndicate
- **Leverage Corporate Partnerships**
 - Lower "GO TO MARKET" risks/costs
 - Infrastructure to Accelerate Growth as Economies Stabilize

The Allegis Playbook...

- **Get Ahead of the Financing Crisis**
 - "Time is not your Friend"
 - Pro-actively re-capitalize companies to strengthen syndicates
 - "Interim" Valuations are just that - *INTERIM*
- **Anticipate the Market Recovery –Don't Wait for It**
 - What sectors remain strong (Security)
 - Where can we create value in a Down Economy
 - "*Is Now the Time to Start this Company*"?
- **Pick Your Partners very Carefully**
 - Firms and Partners are going to Disappear



It's a Great Time to Build a Portfolio!

A network diagram on the left side of the slide, consisting of several circular nodes connected by thin, light blue lines. Three of these nodes are highlighted with a larger, solid light blue circle. The text "Have a Great Conference" is centered over the middle of these three highlighted nodes.

Have a Great Conference