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Latest WTIA Venture Capital Survey Predicts Lower Earnings for Start-ups, Lower Valuations for Funding Deals in Q4 2008

Concerns over struggling national economy leading to lower expectations

SEATTLE – October 29, 2008 – As nation's economic woes deepen, Washington state's venture capital community expects lower near-term revenue growth for their portfolio companies and shrinking deal valuations for companies at all stages, according to the latest quarterly Venture Capital Outlook Survey from the Washington Technology Industry Association (WTIA). The national economy is the top issue facing their portfolio companies, according to a substantial majority of survey respondents.

The survey queries top local VC firms about indicators for the coming quarter and covers topics such as deal quality, deal quantity, expected exits and various business metrics for their portfolio companies. Results are compared to previous quarters. Key highlight from the Q4 2008 survey, which is sponsored by Ernst & Young and Perkins Coie, include:

- **Heightened concerns about the economy:** In Q4, 76 percent of VCs see national business conditions as one of the top challenges facing their portfolio companies, up significantly from the 43 percent who felt so in Q3.
- **Lower revenue projections:** A third of respondents expect revenue growth for their portfolio companies to be moderately or substantially lower in Q4 compared to just 14 percent in Q3.
- **Shrinking valuations:** Respondents predict moderately to substantially lower deal valuations for early, mid and late-stage companies in Q4. The sharpest change is in the outlook for mid-stage company valuations. In Q3, just 14 percent of respondents expected mid-stage company valuations to go down. In Q4, that number jumps to 88 percent. Similarly, 88 percent of respondents expect smaller valuations for late-stage companies in Q4 compared to 33 percent in Q3.
- **A hiring slowdown:** For the first time, the survey indicates a decrease in hiring. 75 percent of respondents expect no growth in hiring of Washington state workers for the fourth quarter, with just 13 percent expecting an increase in hiring. This contrasts sharply with projections for Q3, in which 57 percent projected hiring increases and 29 percent expected steady employment levels. Despite the overall hiring slowdown, however, attracting senior level talent remains a top concern for portfolio companies.
- **Mixed outlook on deal flow:** In a sign of optimism, while no VCs predicted that new deal flow would be up in Q3, 38 percent expect a moderate increase in Q4. However, the confidence of VCs regarding the deal flow that will actually close in Q4 fell, with 38 percent of respondents

expecting moderately or substantially fewer deals to close compared to just 29 percent who predicted a decline in Q3.

- No exits are expected in Q4.

The full results of the survey are available at the WTIA's website (www.washingtontechnology.org).

About the Washington Technology Industry Association

The Washington Technology Industry Association, founded in 1984, is the largest statewide association of technology companies, IT departments and individual technology professionals in North America. With more than 1,000 member companies representing more than 100,000 employees in Washington State, the association is a catalyst for sharing expertise, fostering collaboration, delivering key business services and advancing the value and global impact of technology companies doing business in Washington. The association's global partners are Davis Wright Tremaine LLP, Microsoft, Regence BlueShield, Sun Microsystems, Vertafore and Wells Fargo Insurance Services. The association's funding partners are AH&T Insurance, Blink Interactive, Inc., Comerica Bank, F5 Networks, GrapeCity and RealNetworks. For more information, go to www.washingtontechnology.org.

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