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WTIA Venture Capitalist Outlook Shows Relative Stability with Cautious Optimism

Portfolio company revenues to grow moderately; C-round funding increases slightly; no layoffs expected

SEATTLE, WASH – August 9, 2010 – Today, the [Washington Technology Industry Association](#) (WTIA) released the results of its Q3 2010 Venture Capital Outlook Survey. The main theme of this quarter's survey (as in recent quarters) is that the economy continues to be the number one concern of Washington's Venture Capitalist (VC) community. With the slowdown in the economic recovery, the majority of VCs have predicted that the quality of new deal flow, the quality of deals expected to close, their confidence in the quantity of deal flow, and valuations for new early-stage deals will remain the same as Q2. Cautious optimism may be indicated by improvements in the predictions of moderate revenue growth and the absence of layoffs. For the first time since 2009 firms are predicting that they will be making C-round investments, which may indicate growing confidence in companies that have weathered the economic storm thus far.

"Despite uncertainty in the economy right now, VCs' expectations are holding steady for Q3." said Susan Sigl, president and CEO of the WTIA. "The overall outlook is positive for moderate revenue growth, but as some of the steam has gone out of the recovery it's clear that VCs are expecting their portfolio companies to keep a tight lid on costs, which is reflected in the hiring predictions. The small move toward later stage investing is certainly welcome news to start-ups that have kept themselves afloat during the recession and may be in need of a capital infusion."

The WTIA queries top VC firms statewide about indicators for the coming quarter and insights on topics such as deal quality, deal quantity, expected exits and various business metrics for their portfolio companies. Results are compared to previous quarters. Key highlights from the Q3 2010 survey include:

- **Zero portfolio companies are predicting layoffs, despite a hold in hiring.** Eighty-eight percent of participants predict portfolio companies' workforces will remain level during the quarter. Twelve percent of participants were not sure, and none were predicting layoffs.
- **VCs investing funds later in company lifecycles.** While seventy-one percent of VCs expect to invest in series A funding rounds, this is the first quarter since Q3 2009 that VCs predict investing

in C rounds. Twenty-eight percent of respondents predicted Q3 investments split evenly between B and C rounds.

- **Optimism for substantial future revenue growth dampens but increases for moderate growth.** No VCs predicted substantially better revenue growth for Q3 compared to thirteen percent last quarter. However, eighty-eight percent of VCs predict moderately better growth among portfolio companies in Q3 compared to sixty-three percent in Q2. Twenty-two percent predict revenue will remain the same in Q3.
- **Out-of-state investments increasing.** Eighty-six percent of VCs plan to co-invest with firms from outside of Washington State and all survey participants plan on co-investing with in-state firms.
- **Increased M&A activity in Q3.** Seventy-one percent of VCs anticipate a portfolio company acquisition in Q3 compared to thirteen percent last quarter.

“I think investors are still worried about macro factors like unemployment, health care costs, and upcoming tax increases,” said Greg Gottesman, Managing Director at Madrona Venture Group. “That said, there are a lot of reasons to be optimistic. Enterprise IT spending is up, mobile is taking off, and entrepreneurs are starting really interesting businesses. We expect Q3 to be a positive quarter for most companies and more M&A activity than we have seen in a long while.”

The summary and full results of the survey are available on the WTIA’s Web site:

<http://www.washingtontechnology.org>.

This survey is sponsored by Ernst & Young and Perkins Coie and developed in partnership with Evergreen Venture Capital Association.

Full Summary: <http://www.washingtontechnology.org/documents/wtiasummaryvcosq32010.pdf>

Raw Data: <http://www.washingtontechnology.org/documents/rawdata2010q3.pdf>

About the Washington Technology Industry Association

The Washington Technology Industry Association, founded in 1984, is one of the largest statewide associations of technology companies, IT departments and individual technology professionals in North America. With more than 1,000 members representing more than 125,000 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 Microsoft, Regence BlueShield, Vertafore and Wells

Fargo Insurance Services. The association's funding partners are AH&T Insurance, F5 Networks, Moss Adams LLP and RealNetworks. For more information, go to www.washingtontechnology.org.

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