



UTAH FUND OF FUNDS

Utah Fund of Funds
2006 Annual Report
Utah State Legislature

Utah Capital Investment Corporation: Chairman's Summary

Dear Friends of Utah:

The Utah Fund of Funds program was created in 2003 by forward thinking Utah Legislators in collaboration with entrepreneurs and the technology industry. In the few short years since it was launched in 2005, the program has become one of Utah's most productive economic development programs, and the nation's most effective program of its kind.

The Utah Fund of Funds has already significantly increased the amount and diversity of capital available to Utah entrepreneurs. A growing number of companies in the State are benefiting from increased exposure to investors both inside and outside of Utah. Jobs are being created, and experienced managers are being developed and recruited as a result of the increased investment activity. At the end of 2006, 20 Utah companies had received an aggregate total of \$45,903,990 from the UtahFoF portfolio of investment firms – \$265,692,143 from all investors. These companies had a total of 729 Utah employees, with an average annual salary of \$65, 217 – nearly double the state's average 2006 non-agricultural income of \$34,600.

It is easy to understand why the Utah Fund of Funds program has been enthusiastically embraced by Utah's entrepreneurial community as a prime example of enlightened public-private collaboration.

As you explore the Utah Fund of Funds 2006 Annual Report, I am confident that you will agree with me that the program needs to continue and expand. This essential program helps ensure the state's economic growth by supporting the primary engine of economic development – our entrepreneurial growth companies.

Sincerely,

Will West
President and CEO, Control4
Chairman, Utah Capital Investment Corporation

Utah Capital Investment Board: Chairman's Summary

As the Board given oversight responsibilities for the Utah Fund of Funds, Utah Capital Investment Corporation and the State of Utah Tax Credits supporting the borrowing from Deutsche Bank AG, the board members over the past year have volunteered their time doing due diligence on behalf of the State. This has included one or more members attending all board meetings held by the UCIC, sitting on the internal UCIC nominating and budget committees, reviewing all UCIC policy and procedures, receiving quarterly UCIC and Fund financial reports, frequent discussions and briefings from the Fund Managing Director, attending public Fund promotional meetings and functions, and holding quarterly UCIB board meetings. The results of these efforts have created an amicable and productive working relationship between all the entities responsible for implementing the State's Venture Capital Enhancement Act. All information requested by UCIB members has been provided and is maintained under the provisions of the Utah Government Records Access and Management Act (GRAMA).

The UCIB members have been provided as mentioned above quarterly financials and briefings regarding the Fund investments and expenditure. Accordingly at this stage of the Fund development, the soundness of the performance of the program is on forecast and budget as initially anticipated by the Fund's Investment Manager, Fort Washington Investment Advisors, Inc. The UCIC and Fund annual Audit Reports and Opinion Letters from the independent audit firm of Wisan, Smith, Racker & Prescott, LLP contained no material weakness. However, the firm did recommend that the UCIC Board of Directors develop written policies and procedures for all areas and functions of the Fund and UCIC. The Managing Director of the Fund and his staff are in the process of redrafting the current policies and procedures in order to comply with the recommendation of the auditor. Both the UCIC and UCIB will review and give final approval to the new policies and procedures.

Sincerely,

Alec Searl
Chairman, Utah Capital Investment Board



Fiscal 2006 Annual Report

Fiscal 2006 was a year of tremendous growth and maturation for the Utah Fund of Funds (Utah FoF) program. The program significantly increased its number of investments in local and national venture firms, and forged or strengthened relationships with many leaders in the larger investment and business communities, helping enhance the profile and credibility of Utah's growth companies and entrepreneurial economy.

Highlights

- Created by the Utah Legislature in 2003 and launched in 2005, the Utah Fund of Funds (Utah FoF) has quickly become a highly successful fixture in Utah's entrepreneurial economy
- The Utah FoF's first financing round, \$100 million, was provided by Deutsche Bank
- The program receives oversight from two boards: the public Utah Capital Investment Board (UCIB) and the private, executive Utah Capital Investment Corporation (UCIC)
 - All UCIC board members serve on a voluntary, unpaid basis
- The mission of the Utah FoF is to drive economic development by increasing the amount and diversity of capital available to the state's growth companies, and to expand their access to relationships that can assist in their ongoing growth and development
 - The program is functioning in close alignment with its stated legislated purposes
- Fort Washington Capital is the Utah FoF program's investment advisor, providing due diligence and investment counsel on prospective portfolio investments
- At the end of 2006, the Utah FoF had invested in nine portfolio venture capital/private equity firms, including three Utah firms (two Utah firms – Cross Creek Capital, affiliated with Wasatch Advisors, and University Venture Fund – are new Utah funds) that serve a variety of industries (IT, life science, retail, financial, etc.) and range from early-stage to mid-stage capital
 - Since then the program has made investments in five additional funds, including three Utah firms (one of these firms, Upstart Ventures, is a new Utah life science-oriented fund), and there with four additional firms in the pipeline
 - The program has attracted attention and involvement from an exceptional group of national firms
- The Utah FoF is widely considered the most successful program of its kind in the U.S., and is being used as a model for programs in other states

Historical Background

With substantial support from leaders in Utah's investment and entrepreneurial communities, the Utah Fund of Funds was established in 2003, with the passage of Utah House Bill 240 ("HB 240, the Venture Capital Enhancement Act). Led by Utah economic development leaders and entrepreneurs involved with the then-Utah Information Technology Association (UITA; now the Utah Technology Council, UTC), an unfunded legislative workgroup crafted the legislation, based on best practices from other states, adapted to the needs of Utah. Sponsored by State Representative Peggy Wallace, with support from leaders on both sides of the aisle, HB240 passed overwhelmingly through both the Senate and the House in its first attempt, and the Utah Fund of Funds was born.

Legislated Purpose

Utah's Legislature found and stated in section § 63-38f-1202 that the findings and purpose of the Utah Fund of Funds legislation were:“(1) The Legislature finds that: (b) a critical *shortage of seed and venture capital* resources exists in the state [of Utah], and that shortage is impairing the growth of commerce in the state; (c) a need exists to *increase the availability of venture equity capital* for emerging, expanding, and restructuring enterprises in Utah, including enterprises in the life sciences, advanced manufacturing, and information technology.”

The Utah Fund of Funds legislation further stated that the legislation was enacted in order to: “(2) (a) *mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales*; (b) retain the private-sector culture of *focusing on rate of return in the investing process*; and (c) *secure the services of the best managers in the venture capital industry, regardless of location.*”

Financing

Utah FoF financing is provided by an outside third party, and supported by contingent tax credits issued by the State of Utah. Proposals from more than 30 financial institutions were evaluated by UCIC and UCIB, with Deutsche Bank being selected to provide the first \$100 million round of the Utah FoF financing. The program is structured to be financially self-sustaining, with profits from Utah FoF investments paying back financiers. Only in the highly unlikely case of a shortfall, not anticipated in any Utah FoF pro-forma forecasts, would the state be required to place tax credit funds into the program.

Structure

The Utah FoF is governed by two boards that oversee and report on the fund's activities, which are primarily executed by the program's staff, led by the UtahFoF managing director, with support from a professional investment advisor firm. All board members serve on a volunteer basis, most members maintain demanding “day jobs” while serving.

The Utah Capital Investment Board (UCIB) is a State of Utah government board with membership determined by government position or State Governor appointment. UCIB is the state oversight board responsible for overseeing the Utah tax credits, and plays a crucial role in overseeing Utah FoF financing and in reporting program status to the Utah legislature. Current UCIB board members include:



Edward Alter: Treasurer, State of Utah.

Major responsibilities include cash management and investment of state funds, selling the state's general obligation and revenue bonds and administering the state's unclaimed property program. He has been a member of the Utah State Retirement Board since 1981 and has served as President of the Board for nine years. He is also a member of the State Bonding Commission, the Private Activity Bond Review Board and the Utah Housing Finance Agency Board. Prior to his election as State Treasurer, Ed was the Assistant Treasurer for the University of Utah (1972-1980). He spent 5 years in the public accounting profession as a senior accountant in Los Angeles (1967-1972) where he became a CPA. Mr. Alter was elected President of the National Association of State Treasurers in 1986, was named by City and State Magazine to its All-Pro Government Team in 1988, and he received the first Jesse M. Unruh award for treasury excellence from the National Association of State Treasurers in 1989.

Lonnie M. Bullard: President & CEO, Jacobsen Construction Company.

Lonnie M. Bullard graduated in 1979 with a BA degree from Weber State University and an MBA from Northwestern in 1981. Mr. Bullard has over 25 years of professional experience and is currently the President and CEO of Jacobsen Construction Company, Inc., one of the largest regional

commercial contractors based in Salt Lake City. Prior to working with Jacobsen Construction, Mr. Bullard was a senior partner and project manager with the Boyer Company for 11 years. Mr. Bullard has served on many boards including: Member of the Coalition for Utah's Future, Member of the Economic Development Corp. of Utah, Chairman and Member of the Utah School and Institutional Trust Lands Administration, and Member of the Utah Chapter of the Associated General Contractors. In addition his professional affiliations include: Member of Rotary International, Member of the Utah Chapter of Young Presidents Organization, Member of the National Private Industry Advisory Council, and Member of the Legacy of Life Committee at the LDS Hospital Heart and Lung Research Foundation.

Alexander L. Searl (Chairman): Retired executive.

Alexander L. Searl is a seasoned business professional with over 38 years experience in a variety of industries. Mr. Searl received degrees from Syracuse University (BA and MBA), Harvard Graduate School of Business Administration (Executive Management Program), Duke University (Chemistry for Executives), and Darden Graduate School of Business Administration (Pathway to Marketing Excellence). His corporate experience has included: CFO of Paradigm Inc., COO and CFO of Crown Energy Corporation, Senior Vice President and CFO of Theratech Inc., Executive Vice President of the American Stores Company, and a number of Vice President positions with Hercules Incorporated. Along with his extensive professional career, Mr. Searl has been significantly involved with the community, directorships, and other organizations. From 1987 to 2000, Mr. Searl was a member of the Financial Executives Institute. He has served on the Board of Spenco Medical Corporation, the American Cancer Association of Delaware, the American Heart Association of Delaware, and as a principal of Manhattan Goose, LLC. Mr. Searl has also been appointed by governors in both Utah and Delaware to various positions in state government.

Robert P. Majka (Vice-Chairman): CEO, Marlin Bank.

Mr. Majka has more than 30 years management experience in the consumer and commercial lending industry. Mr. Majka was an Executive Vice President with Associates Corporation that merged with Citigroup in late 2000. At the time of the merger, Associate Corporation was one of the nation's largest "subprime" lenders, had \$29.7 billion in outstanding loans in its consumer finance portfolio, serviced 480,000 home equity loans, and had nearly 3 million personal loans. Mr. Majka was the President and CEO of Associates Capital Bank, Inc. prior to the Citigroup merger and was a Vice President with Croker National Bank prior to joining the Associate Corporation. Upon leaving Citigroup and returning to Utah, Mr. Majka has been involved as a Board of Trustee with the Catholic Foundation of Utah, a Director with the Volvo Commercial Credit Corp. and participated in Junior Achievement Economics at Alta High School.

Jason Perry: Executive Director, Utah Governor's Office of Economic Development.

Mr. Perry was appointed by Governor Huntsman as Executive Director of the Governor's Office of Economic Development (GOED). He oversees economic development in the state of Utah, the Office of Tourism and the Utah Film Commission. Prior to his appointment at GOED, Jason served as Deputy Director of the Utah Department of Commerce. He administered human resources functions for the 250-person department and served as Enterprise Project Manager of the development of the Utah OneStop Business Registration. During several transition periods at the Department of Commerce, Jason served as acting director for the department as well as the acting director for the Division of Securities, and the Division of Real Estate. Jason also worked as a state and federal prosecutor with the Utah Attorney General's Office. In 2002, he was awarded the FBI Director's Award for Distinguished Service to the Law Enforcement Community for his efforts in the prosecution of internet crimes against children. The purpose of the board is to mobilize venture equity capital for investment in a manner that will result in a significant potential to create

jobs and to diversify and stabilize the economy of the state. Board duties are to establish criteria and procedures for the allocation and issuance of contingent tax credits to designated investors and designated purchasers by means of certificates issued by the board, establish criteria and procedures for assessing the likelihood of contingent tax credit redemptions, and establish a desired fund rate of return.

The Utah Capital Investment Corporation (UCIC) is a non-profit corporation with a public charter to approve Utah FoF financing in partnership with UCIB, approve all Utah FoF investments, and choose and manage the program's staff and outside investment advisor. All UCIC board members volunteer their time and expertise, without receiving pay. The UCIC consists of prominent Utah industry leaders. Current members include:



Will West (Chairman): Co-founder, President & CEO, Control4; Chairman, Utah Technology Council.

Mr. West is the President, CEO, and Co-Founder of Control4, an award winning manufacturer of residential control systems. This is the fourth new technology company he has started in Utah with his long time partner Eric Smith. In addition to Control4's financings, Mr. West has raised more than \$250 million in private equity capital. Mr. West also co-founded STSN (now iBahn) in 1998 and has served as its Chairman, CEO, and President. He and the rest of the iBahn team have grown the company to where it is today -- the worldwide leading provider of wired and wireless broadband services for business travelers. Every month, more than a quarter of a million business travelers rely on iBahn to keep them connected while they are on the road. iBahn secure broadband solutions are available in hundreds of thousands of guest rooms and hotel meeting rooms worldwide. Prior to founding iBahn, Will was the CEO, President and Co-Founder of PHAST Corporation. Under his leadership PHAST Corporation (now a division of a larger control systems company) became the leading manufacturer of high-end home automation systems. PHAST brought to market over 30 electronic control products and an extensive suite of software that revolutionized the residential systems market. Mr. West's professional experience includes work at Proctor and Gamble, the Federal Savings and Loan Insurance Corporation, Price Waterhouse, and Wasatch Advisors. Mr. West holds a Bachelor's degree in Finance from the University of Utah and a Masters in Business Administration from the Wharton School of Business. He also holds the Chartered Financial Analyst designation.

Geoff Woolley: Founding partner, Dominion Ventures; founder and former executive chairman of European Venture Partners.

Geoffrey T. Woolley has been active in private equity investing for over 25 years and founded two successful venture funds in the United States and Europe. He pioneered the concept of venture debt and has invested in over four hundred companies in his career. Business titles include Founding Partner of Dominion Ventures, Inc. and Executive Chairman of European Venture Partner. Forming Dominion in 1985 at the age of twenty-four, he is the youngest person to raise an institution private equity fund from institutions that include Calpers, IBM, Mitsui, Travelers, Duke University and many others. At Dominion, he raised and managed over \$750,000,000 while returning attractive returns to investors. In 1998, he stepped back to an advisory role at Dominion to enable time to pursue other non-profit and business interests. At Dominion he invested in well know companies such as Ciena, Coinstar, Human Genome Sciences, Powersoft, Tivoli, Vertex and Xylan along with hundreds of successful and not so successful companies. He founded European Venture Partners (EVP) in 1997 to introduce "venture leasing", an asset backed debt instrument with equity participation to the European and Israeli market. With offices in London, Tel Aviv and Stockholm, the company has successfully invested over \$200,000,000 in various early stage companies. He remains active spending up to ten days monthly in Europe and has been able to return superior returns to investors despite a major private equity

downturn. Mr. Woolley serves as an advisor on the boards of Polaris Ventures, Euclid SR Partners, and Von Braun & Schrieber Private Equity. He provides advice on strategy, fund raising and is an investor in these well known funds. He is very active in Eccles Business School at the University of Utah where he chairs a program to make the school a top entrepreneurial business school in the next seven years. This includes his Chair role of the University Venture Fund that is an independent non-profit, with student associates managing the fund. Raising a \$20,000,000 fund, students work with well established venture and buy-out funds to perform due diligence on prospective investments these top tier firms are investigating. Mr. Woolley has been active with many worthy non-profits. For four years, he was Chairman of the NAMES Project Foundation, the caretaker of the AIDS Memorial Quilt. During his tenure, the organization organized forty local chapters, with over 20,000 volunteers and was able to raise multi million dollars to sustain the organization. He is on the board of Unitus, a microfinance non-profit that provides small loans to the world in very poor places such as India, Bolivia, Mexico and South Africa. Geoff was active in the 2000 presidential election and took an active "co-chair" role in the Gore 2000 campaign. Mr. Woolley holds an MBA degree from the University of Utah and a BS in Business Management from Brigham Young University

Frank S. Trumbower: Retired CEO, Cambridge Technology Partners.

Mr. Trumbower is a retired CEO, Cambridge Technology Partners, Inc. and adjunct professor at Oxford University. Cambridge Technology Partners is a Venture Capital firm with offices in New England, Metropolitan DC and Menlo Park, CA. Cambridge specialized in early stage investments in computer and communications technologies. The VC firm is not related to the firm with a similar name recently acquired by Novell. Prior to joining Cambridge, Mr. Trumbower worked with Sprout Capital in New York and also worked in LBO finance while in New York. Mr. Trumbower led the LBO of Scott Publishing and operated that company for several years. Mr. Trumbower also was a founder of Computer Network Corporation, Comten Corporation and DirectSat Corporation, now part of Echostar (Dish Network). Mr. Trumbower graduated from the University of San Francisco in 1959 and then studied as a Marshall Scholar at the London School of Economics, doing the M.Sc. and Ph.D degrees in London. He returned to the US following graduate school and became a member of the staff of Secretary McNamara at the Office of the Secretary of Defense. Mr. Trumbower later served as the Chief Economist at the Office of Economic Opportunity under President Johnson and also as Chief Economist of the African Development Corporation during the period Mr. McNamara served as President of the World Bank.

Richard Nelson: President & CEO, Utah Technology Council (UTC); president, national Council of Regional Information Technology Associations.

Richard Nelson is the President and Chief Executive Officer of the Utah Technology Council (UTC, formerly UITA), the premier industry-driven, high-tech professional organization in the state. UTC is recognized also as one of the top information technology councils in the country. He has represented the industry since 1999, with highlights ranging from leading the industry's enormously successful passage of the \$100 million Fund of Funds with the 2003 Legislature to providing industry testimony before the United States Senate Judiciary Committee. He likes to refer to his industry role as the "community builder" in fostering Utah's highly-recognized IT community -- with over 2600 IT companies. Mr. Nelson has an MBA from Northwestern University in marketing and finance and a Bachelor of Science Degree from Brigham Young University. In 2000, Governor Leavitt appointed him to the state's Board of Business and Economic Development.

Peggy Wallace: Vice President, America First Credit Union; former Utah State Representative and sponsor of the Utah Fund of Funds legislation.

Peggy Wallace currently serves in the capacity of vice president for America First Credit Union, one of the nation's largest and most successful credit unions. A Utah native, Ms. Wallace has worked almost forty years in positions of increasing responsibility and influence within the financial services industry.

Prior to her current role, she has served as: operations officer for United California Bank; senior operations officer for American Savings and Loan's Southern Division; and associate vice president over Savings Administration for Beverly Hills Savings. Ms. Wallace has served on numerous professional and community boards, and currently serves on: the Utah Cooperative Alliance; Utah Professional Republican Women; Republican Women's PAC; as a long-standing Development Education board member with the World Organization of Credit Unions; and on the public policy committee for the Utah Technology Council (UTC). From 2001 through 2006, Ms. Wallace served as the Representative for West Jordan in the Utah Legislature, where she chaired the commerce and revenues sub-appropriations committee for two years; was vice chair of Workforce Services for two years; and sponsored the Utah Fund of Funds legislation (Utah Venture Capital Enhancement Act).

Previous Board Members that lent their expertise to the establishment and execution of the Utah Fund of Funds:

Gary Crittenden: (2004 – 2005):

Chief Financial Officer, Citibank Corp. Prior to Citibank, Mr. Crittenden was the executive Vice President and Chief Financial Officer American Express Company. In this role he serves as a key advisor on strategic and financial matters worldwide, and represents American Express to investors, lenders and rating agencies. Gary is a member of the American Express Global Leadership Team, the company's senior-most management group. Prior to joining American Express, Gary was chief financial officer of Monsanto and Sears Roebuck & Company. He began his career in consulting at Bain & Company, where he worked on a range of strategic projects in the United States and Germany. Gary serves on the board of directors of Ryerson Tull, Inc., Staples, Inc., and TJX Companies, Inc. He also is a board member of the Connecticut Yankee Council of the Boy Scouts of America. He holds a BS degree in Management from Brigham Young University and an MBA from Harvard University.

Mike Levinthal: (2005 – 2006):

Mr. Levinthal has over 24 years of venture capital investing experience. Mr. Levinthal spent 20 years with the Mayfield Fund, where he sponsored such successes as Citrix, Concur Technologies, Heartstream, Pure Software and WebMethods. Additionally, he founded Mayfield Software Partners, a side fund consisting of 20 leading software entrepreneurs as investors. He began his career in venture capital at New Enterprise Associates (NEA) where he founded ONSET Ventures, a venture firm specializing in incubating new companies. Mr. Levinthal holds an MBA from the Stanford Graduate School of Business. He received both his MS and BS degrees in Engineering from Stanford University.

Current Utah FoF Staff:

Jeremy Neilson: Managing Director

Mr. Neilson was the first staff hire of the Utah Fund of Funds program has been working for the program's success for the past four years. Mr. Neilson holds a finance degree from BYU, an MBA from the University of Utah and a law degree from Wake Forest. He has served as an associate with the University Venture Fund and as a forensic accounting consultant with Neilson Elggren.

Chad Nuesmeyer, Associate

Mr. Nuesmeyer began his venture capital career at the University Venture Fund working on due diligence and making investment recommendations. Following the University Venture Fund Mr. Nuesmeyer worked at two Salt Lake City start-ups; ultimately contributing to a profitable turnaround and a successful exit. He Graduated from the University of Utah with a degree in Finance.

Ben Forsyth (Intern)

Ben Forsyth is a recent graduate from Utah State University where he studied Finance and Economics. As an intern at Utah Fund of Funds, Mr. Forsyth has enjoyed interacting with investment professionals, learning the legal details of term sheets and participating in due diligence. Professionally, Ben would like to work in private equity, pension funds or investment banking. He is currently studying for the C.F.A. Level 1 exam which he will take in December.

Utah FoF Investment Advisor

The Utah Fund of Funds Investment Advisor is a professional firm chosen by the UCIC through a formal request for proposals (RFP) process. The advisor's primary duties include: finding and evaluating potential investments; performing due diligence; providing investment recommendations to the UCIC board; and assisting the Utah FoF in community outreach programs and events.

The investment advisor for the program's Fund I is Fort Washington Capital Partners Group, with headquarters in Cincinnati, OH and full-time offices in Utah, led by senior staff. Fort Washington's Utah office is led by regional director and vice president Peter Jarman, an experienced business professional who has held executive positions at Roundy, Inc., Parametric Technology Corp., Oculus Technologies, Campus Pipeline (now SunGard Higher Education) and Icon Health and Fitness.

Investment Approach/Goals:

Before any investment decisions were made, the Utah Capital Investment Corporation (UCIC) commissioned a comprehensive research and analysis of Utah's business environment looking at several specific areas, including start-ups, growth companies, venture capital and buyout financings, angel groups and banking options. The analysis aimed to accomplish four goals: 1) Assess Utah's start-up and growth company market environment and potential sources of deal flow; 2) Identify Utah's gaps in funding spectrum by stage and industry; 3) Analyze gaps to understand why they exist and what, if anything, the Utah Fund of Funds can do to help close them; and 4) Develop initial idea set for UCIC Board consideration.

The key findings from the assessment report included:

- 1) Utah's capital pool is shallow across the board, with relatively few funds and limited capital to invest;
- 2) Life sciences/genetics is especially thin;
- 3) Early and Expansion stages are likewise especially thin; and
- 4) Utah relies on national funds to lead later stage deals, yet national funds have no commitment to Utah.

The UCIC board, in consultation with Fort Washington Capital, set a strategy aimed at resolving the problems found by the assessment report. The UCIC established a diversified "three-pronged strategy" of: 1- supporting the existing local firms; 2- assisting in the creation of new Utah-based firms; and 3- recruiting regional and national firms to partner with the Utah Fund of Funds to provide needed expertise, capital and networking.

UCIC will also seek to focus on three additional areas: industry, stage of investment, and vintage year. In the area of "Industry," the assessment report discovered that 83 percent of Utah start-up investments occurred in the IT/Technology and Life Science, so the UCIC strategy was to seek investment in firms that focused on these two areas. A third industry, consumer products, was also added. With regard to "Stage," UCIC aimed to invest in seed/early stage, mid/expansion stage, mezzanine/late stage and buyout. Finally, with regard to "Vintage" year, UCIC sought to invest in funds that were launched in a span of three to four years, for example 2004-2007. See below for details on how the Utah Fund of Funds portfolio, as of year end 2006, is accomplishing its investing goals.



Portfolio Approach:

The mission of the Utah Fund of Funds, created by the Utah Legislature through the passage in 2003 of House Bill 240 - the Venture Capital Enhancement Act - is to increase the amount, quality and diversity of capital funding available to help the state's early-stage and growth companies to grow, prosper and mature in Utah. To fulfill this mission, the Utah FoF evaluates quality venture firms within and outside Utah, with the assistance of the program's professional investment advisor, Fort Washington Capital Partners.

While the UtahFoF program has legislatively been advised not to invest its capital in first-time venture investors, it may consider investing in first-time firms whose partners have established a track record of sound investments and successful returns in other firms. In addition, the program has determined not to require its portfolio firms to open an office in the state, or contractually bind them to commit to invest specified dollar amounts in Utah companies. It does, however, require partners of its portfolio firms to commit to spending time in Utah meeting with companies and entrepreneurs, and/or to make themselves available for Utah executives to visit them at their offices.

The primary rationale for these decisions is to maximize investment returns and access to primary decision makers at the firms. Research and experience indicates that requiring offices or investment clauses results in a lack of interest from the nation's best-networked, successful investors, and in time commitments being fulfilled by junior professionals at the firms, who do not have a vote on investment decisions. The Utah FoF is committed to obtaining successful investors and partner-level attention for Utah.

The Utah Fund of Funds Portfolio

At yearend 2006, the Utah FoF portfolio consisted of nine investment firms, ranging from seed stage to later-stage growth companies; and across a variety of industry areas, from life sciences and information technology to retail, consumer and business services. The Utah FoF is developing a diversified portfolio regarding investment stage, industry specialty, geographic focus (in addition to Utah) and vintage year, resulting from 20 or more fund investments by early 2008. <http://utahfundoffunds.com/portfolio.html>

SV Life Sciences Fund IV, L.P.: A \$550 million round. Founded in 1993 as Schroder Ventures Life Science, SV has offices in Boston, San Francisco and London. The firm focuses on multi-stage investments across the life sciences sector. Managing partners include David Milne, Michael Ross, Ph.D., Lutz Geibel, Jim Garvey and Eugene Hill. Leading co-investors include Abingworth Management, Aisling Capital, Alta Partners, Carlyle Group, MPM Capital, Oak Investment Partners, Orbimed, Oxford Bioscience Partners, Prospect Venture Partners, Three Arch Partners and Versant Ventures.



Cross Creek Capital, L.P. Fund I: \$111 million. Based in Salt Lake City, Cross Creek is new Utah based fund and the venture capital investment arm of Wasatch Advisors. The firm focuses on late-stage investments across a broad spectrum of industries. Managing directors include Karey Barker, Greg Bohlen, Robert Gardiner and Samuel Stewart. Leading co-investors include Arch Venture Partners, Domain Associates, Meritech Capital Partners, New Enterprise Associates and Questmark Partners.



Rosewood Capital V, L.P.: \$295 million. Rosewood Capital, based in San Francisco, was founded in 1985 and focuses on expansion-stage growth companies, primarily in the consumer, retail and business & financial ser-



vices sectors. Managing directors include Chip Adams and Kevin Reilly; Carl Peterson serves as vice president. Top co-investors include Bain Capital, Benchmark Capital, Carlyle Group, Catterton Partners, Goldman Sachs, Kleiner Perkins, Sutter Hill Ventures, Technology Crossover Associates and Venrock Associates.

RWI Ventures II, L.P.: \$65 million. Founded in 2000, RWI Ventures focus is on multi-stage investments in the technology and healthcare (medical devices) sectors. Managing directors include Donald Lucas, William Baumel and Mark Foley. Leading co-investors include Alloy Ventures, Canaan Partners, Delphi Ventures, DeNovo Ventures, Frazier Healthcare Ventures, Foundation Capital, Invesco, Kleiner Perkins, Meritech Capital Partners, Prism VentureWorks, Venrock Associates and Warburg Pincus.



University Venture Fund: \$18 Million. Based in Salt Lake City, University Venture Fund is a new Utah fund, founded in 2005 to provide students exposure to the venture capital industry, perform due diligence and serve as a source of quality deal flow to co-investing firms. Its focus is early-stage co-investments with its network of funds across a broad spectrum of industries. Jared Hutchings and Mark Campbell are the managing directors. Major co-investors include Bain Capital, Canaan Partners, Draper Fisher Jurvetson, Intel Capital, Thomas Weisel Partners, UV Partners, vSpring Capital and Wasatch Venture Fund.



vSpring II, L.P.: \$85 Million. Founded in 2000, vSpring focuses on seed and early stage investments in the technology and life science sectors, primarily in the Intermountain West. Managing directors include Dr. Dinesh Patel, Ed Ekstrom, Paul Ahlstrom and Scott Petty. Leading co-investors include Apax Partners, Domain Associates, Draper Fisher Jurvetson, Intel Capital, UV Partners, Venrock Associates and Wasatch Venture Fund.



5AM Ventures II, L.P.: \$150 Million. With offices in San Francisco and Boston, 5AM focuses on seed and early-stage life science investments. Managing partners include John Diekman (founder), Scott Rocklage and Andrew Schwab (founder). Leading co-investors include Delphi Ventures, Frazier Healthcare, Polaris Ventures, Three Arch Partners, Venrock Associates and Versant Ventures.



Highway 12 Ventures II, L.P.: \$75 Million. Founded in 2000 and based in Boise, Highway 12 is a Village Ventures network affiliate. Its focus is on seed, early, and expansion stage investments in the Intermountain West, across a broad spectrum of industries. Partners include Mark Solon, Phil Reed, Mike Mers and Matthew Warta. Leading co-investors include UV Partners, InQTel, Shasta Ventures and Battery Ventures.



Apax US VII, L.P.: \$850 million. Based in New York City, Apax focuses on buy-outs in the retail & consumer, tech & telecom, healthcare, media and financial & business services industries.



In the following year, the Utah Fund of Funds plans to expand its high quality portfolio by seven to 10 additional firms.

Utah Fund of Funds Investment Status – Year-End 2006:

At years' end the Utah Fund of Funds had committed to nine portfolio funds. As a group, the portfolio touched each of the areas UCIC was seeking to target. \$47 million was committed to these nine funds as a group. This portfolio of 9 breaks up in the following percentages.

Portfolio Firms' Commitments to Utah

After performing extensive research and benchmarking, the Utah FoF determined to not require portfolio funds to open a Utah office or commit to invest specific dollar amounts in Utah companies. Research indicates that forced offices generally consist of junior staff, and result in neglect by the senior partners; investment requirements often result in lower fund returns and strained relationships between portfolio funds and the states involved.

Rather, the program requires a rigorous commitment by funds' senior management to spend a considerable and specified amount of time in Utah, meeting with companies and entrepreneurs in the state. As a condition of receiving Utah FoF investment, out-of-state portfolio funds commit to a significant ongoing investment of their partners' time and mindshare in the state.

The Utah Fund of Funds' portfolio investment firms have invested tens of millions of dollars in promising Utah companies, resulting in the creation of hundreds of high-quality jobs. These Utah companies have raised hundreds of millions of dollars in aggregate. In addition, the program's officers and board members provide other Utah companies with investor introductions and assistance in obtaining financing from non-portfolio funds. Updated impact statistics from the Utah Fund of Funds can be found on the program's Website.

Utah Fund of Funds Three Pronged Strategy

	Year End 2006	Expectations for Year End 2007
Existing Utah	6%	15%
New to Utah	17%	15%
Regional & National	25%	70%

Industry

	Year End 2006	Expectations for Year End 2007
IT/Technology	19%	50%
Life Sciences	21%	35%
Other (Consumer/Manuf)	12%	15%

Stage

	Year End 2006	Expectations for Year End 2007
Seed/Early	14%	50%
Mid Stage/Expansion	6%	15%
Mezzanine/Late Stage	25%	25%
Buyout	6%	10%

Vintage Year

	Year End 2006	Expectations for Year End 2007
	2004 - 2006	2004 - 2007

Economic Development Successes

In its first several years of existence, the Utah FoF is already bringing powerful economic impact to the state. As of May 30, 2007 (five months after year-end 2006), the Utah FoF portfolio of 12 funds had invested in 20 Utah companies. In aggregate, these companies had received a total of \$45,903,990 from the UtahFoF portfolio of investment firms, and a total of \$265,692,143 from all investors. In total, these companies had 729 Utah employees, with an average annual salary of \$65,217, nearly double the state's average 2006 non-agricultural income of \$34,600, as reported by the Utah Department of Workforce Services.

In addition to these tangible economic benefits, the Utah FoF is making equally important intangible contributions, including:

- Fostering relationships with a growing number of influential investors throughout the United States, not only for the Utah FoF program, but also for Utah companies and entrepreneurs
- Increasing awareness and credibility of Utah, its companies and entrepreneurs among key influencers in the national and global investment community
- Boosting confidence among Utah's entrepreneurial community in the present and future of the state's companies and economy

As the Utah FoF progresses alongside with the state's entrepreneurial community and economy through future funding rounds, the program will continue to broaden the depth and breadth of its influence, and to empower a growing number of Utah entrepreneurs and companies to propel Utah's economic development for the foreseeable future.

- Since the Utah Fund of Funds has begun investing until year end 2006, out of state firms have spent over 80 days in Utah meeting with Utah companies and networking with relevant individuals (no ski days were added).
- Since the Utah Fund of Funds has begun investing until year end 2006, over 100 Utah companies have been reviewed by the 9 funds in the Utah Fund of Funds portfolio.

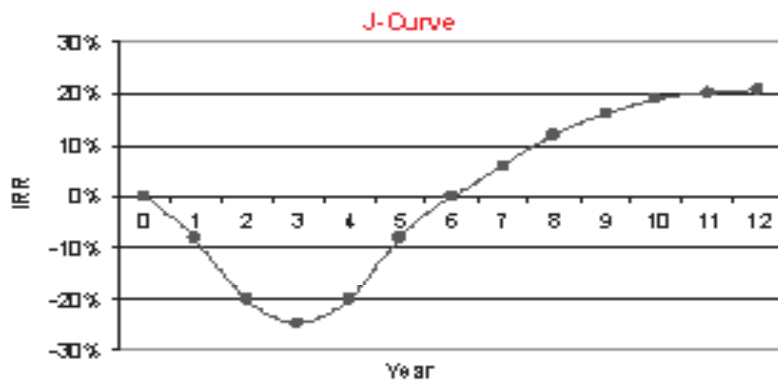
IRR – J Curve:

The "J" Curve

The "J" curve shows a fund's internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the "J" curve illustration below.

By the second half of a fund's life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

- The first few years or so give little, if any, indication of final returns
- The annual return over any single year is relatively meaningless
- The IRR over the life of the fund is the real measure of a fund's success



Entrepreneurial Perspectives:

Utah entrepreneurs are extremely positive about the Utah Fund of Funds – its approach, progress and future – and grateful to Utah legislators for creating the program. Following are quotes from top Utah business leaders:

I'm glad to hear of the increased investing activity being fostered by the Utah Fund of Funds. More competing VCs will improve practices and the treatment of entrepreneurs, helping the entire ecosystem reach a healthy balance that can only be created through a free market with enough competitors acting in their own interest – versus the virtual monopoly that has historically existed here.

Josh James, CEO and co-founder, Omniture

The Utah Fund of Funds has been very helpful introducing us to potential investors. One such introduction resulted in the venture capital firm, Flywheel Ventures, making a significant investment in our company.

David L Bailey
CEO, IntelliSum Inc.; co-founder and former CEO, Iomega

The Fund of Funds's serious interest in stimulating the growth of new companies in Utah and helping grow the ideas of budding entrepreneurs at our leading research institutions is essential to continued growth of the state's economy, now and in the future. The Utah Fund of Funds is an essential part of what is going on here. It is key to Utah's growth that what the Fund of Funds is doing continues to happen and to grow in magnitude.

Dr. Ted Stanley
Managing Director, Upstart Ventures
Co-founder, Anesta and ZARS Pharma

The Utah Fund of Funds has been a valuable resource in identifying venture funds and other potential equity investors in two companies that I am involved with. Currently, discussions with potential investors are proceeding in ways that would never have occurred but for the Fund's assistance. The work being done by the Utah Fund of Funds is a much-needed service for Utah.

Kent Millington
President & CEO, AccessData Corp.

Were it not for the Fund of Funds, many great ideas would go unfunded, companies would wither for lack of capital for growth and expansion, and more jobs and ideas would move out of state.

Dave Hubbard
Founder and CEO, MatchBin.com

Utah Investor Perspectives

The companies we work with need national connections for financial, customer and talent development. We have been impressed with the ability of the Utah Fund of Funds to elevate the perception of Utah companies with the national venture capital community, creating a more fertile entrepreneurial environment for the state's growth companies. We believe the initial investment is paying off for Utah, and we would encourage the Utah Legislature to continue and expand this program.

Karey Barker
Managing Director, Cross Creek Capital (the venture investing arm of Wasatch Advisors)

The Utah Fund of Funds is quickly establishing itself as a major economic development engine for Utah and its growth companies, and UV Partners is pleased to include the program among our limited partners. The Fund of Funds benefits everyone in Utah's economic landscape: entrepreneurs enjoy expanded funding possibilities; local venture capitalists increase the number of potential funding partners; and the state benefits from the creation of quality jobs, tax revenues from its entrepreneurial growth companies, and heightened overall economic vitality.

Blake Modersitzki
Partner, UV Partners

Utah's entrepreneurial economy is in the midst of a period of extraordinary growth, and we are honored to fund and support the companies who will drive our state's economic progress in the years ahead. An expanded Fund of Funds program will be a major factor in increasing the funding and networking opportunities available to the Utah companies we champion.

Dinesh Patel
Managing Director, vSpring
Inductee, Utah Technology Council Hall of Fame

Important recent research confirms that small business is truly the driver of job creation in the U.S. The Fund of Funds has already raised the prestige of Utah as a place to start and grow a company, and as a place to invest. Its ability to attract top-tier national VCs and incent them to get involved with Utah is not only great for the state's companies and entrepreneurs, but for the local VCs as well – it makes it much easier for us to put together the deals that will drive our portfolio companies forward.

Kent Madsen
Managing Director, Wasatch Venture Fund

The fund of funds has made meaningful impact, not only by giving the local venture funds more support, but by promoting Utah as a great place to start a company. They've been great to work with, always interested in adding value to the funds and local entrepreneurs.

Jared Hutchings
Managing Director, University Venture Fund

Utah's schools and taxpayers need an expanded Utah Fund of Funds program. I am fully convinced that the Utah Fund of Funds will exercise a powerful, positive influence on education in the state through the creation of quality, growing Utah companies that will bring many millions of dollars into the state's education program through corporate and personal income tax revenues.

Brad Bertoch
Founder and CEO, Wayne Brown Institute

Conclusion

Utah's entrepreneurial community – from entrepreneurs and business leaders to investors – are fully convinced that the Utah Fund of Funds needs to be continued and expanded to provide the necessary depth and diversity of growth capital for promising Utah companies to expand and remain in Utah.

For more information about the Utah Fund of Funds, visit <http://www.utahfof.com> or call Jeremy Neilson at 801.521.3072.

INDEPENDENT AUDITORS' REPORT

**Chairman of the Board
Utah Capital Investment Corporation
Members
Utah Fund of Funds, LLC
Salt Lake City, Utah**

We have audited the accompanying balance sheet, including the schedule of investments, of Utah Fund of Funds, LLC as of December 31, 2006 and the related statements of operations, cash flows and members' equity for the period from inception (March 16, 2006) through December 31, 2006. All information included in these financial statements is the representation of the management of Utah Fund of Funds, LLC. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Fund of Funds, LLC as of December 31, 2006, and the results of its operations, cash flows and members' equity for the period from inception (March 16, 2006) through December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2007, on our consideration of Utah Fund of Funds, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
August 9, 2007

UTAH FUND OF FUNDS, LLC
BALANCE SHEET
December 31, 2006

ASSETS

Cash and cash equivalents	\$ 2,969,742
Interest receivable	18,001
Investments at estimated fair value (cost - \$8,648,969)	<u>7,982,009</u>
TOTAL ASSETS	<u>\$ 10,969,752</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Accrued expenses	\$ 203,940
Payable to Utah Capital Investment Corporation	219,048
Payable to DBAH Capital, LLC	<u>101,269</u>
TOTAL LIABILITIES	524,257

MEMBERS' EQUITY

Managing member	-
Regular member	<u>10,445,495</u>
TOTAL MEMBERS' EQUITY	<u>10,445,495</u>

TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 10,969,752</u>
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The accompanying notes are an integral part of the financial statements.

UTAH FUND OF FUNDS, LLC
STATEMENT OF OPERATIONS
For the Period from Inception (March 16, 2006)
Through December 31, 2006

INCOME			
Interest income		\$	268,620
EXPENSES			
Management fees	\$	652,072	
Professional fees		866,180	
Organization fees		442,706	
Other expenses		1,413,550	
Operating expenses		<u>1,986</u>	<u>3,376,494</u>
	NET INVESTMENT LOSS		(3,107,874)
	NET CHANGE IN UNREALIZED DEPRECIATION OF INVESTMENTS		<u>(666,960)</u>
	NET DECREASE IN MEMBERS' EQUITY RESULTING FROM OPERATIONS		<u>\$ (3,774,834)</u>

The accompanying notes are an integral part of the financial statements.