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Dear Investors and Friends,

We're pleased to provide our update for LRG Capital Group, including the BayStar Capital III Investment Fund and LRG Advisory, LRG Commercial and LRG Real Estate businesses.

BAYSTAR CAPITAL III FUND: Cash-Rich Fund Maintains Deal Advantage

The continuing domestic economic saga bodes well for the BayStar Capital III Fund. The ongoing rise in the number of companies that need hard-to-get capital, plus the decrease in the number of firms making deals, allow us to aggressively price new transactions in our favor. As a cash-rich Fund, we're able to negotiate draconian, structured debt terms with our target (small- to mid-capitalization public and late-stage private companies primarily in the life sciences and technology sectors) to provide both downside protection with significant upside equity potential.

Portfolio Updates

In January, the Fund extended a term sheet for a senior secured loan to a publicly traded oil and gas company that provides fuel additive product formulations used to improve the combustion characteristics of petroleum-based fuels and renewable liquid fuels. The financing is structured as a senior secured debenture with a 19% coupon and warrant coverage. Additionally, we are still negotiating documents for a senior secured convertible loan (with a 10% coupon, 35% warrants, and full ratchet anti-dilution protection) with the publicly traded medical device company.

20/20 Hindsight – Monthly Update

Our daily monitoring of structured transactions within our private placement criteria¹ provides a rewarding 20/20 hindsight view on the investment team's ability to walk away from deals that make no sense for the Fund in terms of structure, fundamentals, valuation and risk management:

- Our research shows us that as of January 31, 2008, 125 structured investments (debt and convertible equity deals) were completed by publicly traded companies over a rolling 12 month period. On average, as measured from the time of investment, issuers' share prices have declined by almost 21% with the highest gain at 303% and the largest loss at 96%.

In our view, this wide distribution of outcomes, highlighted by a standard deviation of more than 45%, underscores the importance of fundamental research and analysis and the discipline to walk away from investments that don't meet our Fund strategy.

In January, 9 private placements within our criteria were completed, of which 5 were structured and 4 were discounted common transactions:

	Structured Deals	Common Deals
Transaction size	\$6,546M	\$4,307M
Number	125	246
*Equity Gain/Loss	-38%	-12%
**Adjusted Gain/Loss	10%	-12%

LRG CAPITAL GROUP NEWS

LRG Capital Corporate Advisory Services (LRG Advisory) has been retained by Zilog, Inc. (Nasdaq: ZILG) as its financial advisor to review an unsolicited, non-binding and conditional proposal from Universal Electronics, Inc. to acquire the company. Zilog has also retained Skadden, Arps, Slate, Meagher & Flom LLP as legal counsel to assist with its review of the UEI proposal. Zilog (www.zilog.com) designs, develops and markets a broad portfolio of devices for embedded control and communication applications used in consumer electronics, home appliances, security systems, point of sales terminals, personal computer peripherals, as well as industrial and automotive applications.

LRG Capital Commercial Ventures (LRG Commercial) selected Novastar to diversity its holdings. This investment continues to grow as the Novastar International Fund, which invests in profitable small- and mid-capitalization Indian companies, is up 104.7% since inception.

The LRG Special Opportunities Portfolio strategy commenced operations on January 2007 with successful inception-to-date returns of 41.9%. The portfolio takes advantage of opportunities born from the rigorous investment analysis performed on prospective BayStar Capital III portfolio companies and market sectors. This analysis often identifies favorable opportunities that fall outside the parameters of the BayStar Capital III mandated strategy, mostly due to structure or issuer needs, and are best positioned in a separate strategy. We monetize these opportunities through the active trading of long/short common equity positions, but will also include a range of instruments that gain exposure to opportunities beyond those reflected solely through stock price. Stock specific volatility, market sector inefficiencies, and macro relative value are examples. All opportunities use fully liquid instruments and have shorter time horizons than those presented in BayStar Capital III.

Last, we continue to see benefits from our strategic alliances in the Middle East with **Nakheel** (www.nakheel.com), **RetailCorp** and **Seven Tides** (www.seventides.com) in Gulf Cooperation Council (GCC) countries, where we are co-developing restaurants, leisure complexes and retail outlets. We believe these activities will continue to drive new investment opportunities and strong strategic and financial co-investors to the BayStar Capital III Fund.

We are confident in our business initiatives and in the BayStar Capital III Fund investment strategy, investment team and the portfolio companies we invest in. Our success is closely associated with your continued support and investments. We look forward to working with you.

¹ *Private Placement criteria: Public companies with market capitalization between \$50M and \$500M. Transaction value: greater than \$4M over last 12 month period. Healthcare, IT, Telecommunications, Oil and Gas Exploration and Media industries. *Equity Gain/Loss: percentage by which stock price has changed from conversion price or PIPE price per share; **Adjusted Gain/Loss: coupon rate if conversion price exceeds current stock price otherwise Equity Gain/Loss.*