

June 2008

Dear Investors and Friends,

We're pleased to provide our monthly update for the firm:

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BAYSTAR CAPITAL III FUND INVESTMENTS:

- **Virtualscopics (NASDAQ: VSCP) Reports Q1 Revenue Increase**
Virtualscopics (www.virtualscopics.com), a publicly-held company that provides visualization software to substantially reduce the cost and time of clinical trials for drug development, announced a first quarter 2008 revenue increase to over \$1.6 million, a 28% increase over the prior year's comparable quarter. Existing investors in Virtualscopics include Pfizer, Inc., GE Healthcare, and the University of Rochester. The Fund's co-investors in Virtualscopics are Roswell Capital and Gemini Strategies

In September 2007, the Fund invested in Virtualscopics with the following terms:

- Protected base return of 8%
- Convertible at \$1.20 a share; 60% warrants

- **Glasshouse Technologies Continues UK Growth Through TPP Acquisition**
Glasshouse Technologies Inc. (www.glasshouse.com) a privately-held, independent IT infrastructure consulting and services firm focused on transforming IT environments, announced the acquisition of independent UK-based IT consulting firm TPP Group. The acquisition will allow the company to expand its storage management capabilities across the UK. Glasshouse is backed by several leading Venture Capital firms, including Sigma Partners, Kodiak Venture Partners, Globespan Capital Partners, Grandbanks Capital and Paladin Capital Group. The Fund's co-investors in Glasshouse Technologies include Leader Ventures and Velocity Financial.

In July 2007, The Fund invested in Glasshouse with the following terms:

- Protected base return of 12% (9.75% coupon + fees); 36 month term
- Convertible at 20% discount to IPO; 22.5% warrants for six years provide additional upside
- Subordinate to senior debt

LRG Capital and Dubai-based Signature Group Launch Emerging Market Fund

LRG Capital Group and Dubai-based financial house Signature Group (www.signatureamc.com) launched the **LRG Capital/Signature Momentum Fund**, an emerging market, private equity fund investing in small to mid-capitalization financial services institutions with significant growth and/or turnaround potential while employing highly opportunistic diversification. The Fund will target financial services institutions in the E7 (Brazil, Russia, India, China, Mexico, Indonesia and Turkey) countries with existing cash-flows, highly attractive enterprise value, reasonable price and capital structure relative to historical earnings. The Fund is the only private equity fund that specifically covers the envisioned scope, magnitude of investment objective and proposition the LRG Capital/Signature Momentum Fund aims to offer.

The LRG Capital/Signature Momentum Fund was created in response to fundamental industry changes that have made the financial services sector increasingly attractive to investors, such as:

- **Consolidation:** Local banking industries are consolidating to improve efficiency and competitiveness
- **Varying Development Pace:** E7 banking sector remains varied, creating opportunities for inter- and intra-regional investments

- **Market Growth:** E7 countries will remain one of the largest growth segments in the coming decade and banks must be prepared to support business expansion and risk management requirements while foreign investment will meet regional banking needs for capital growth.
- **Leading G7 banks investing into growing economies:** Intra-regional investments range from minority shareholdings to near 100% equity stakes in domestic banks.

LRG Capital's Convertible Arbitrage Fund, The LRG/Admiral Flagship Fund, Continues to Provide Notable Returns

April produced a much-improved month for convertible arbitrage as credit markets began to thaw and credit spread tightening contributed to the post Q1 rebound in convertible market performance. The LRG/ Admiral Flagship Fund posted a 1.27% net return for the month. The main drivers for this month's return were increased high-yield credit exposures in the technology, energy and financial sectors as well as a meaningful reduction in credit hedges and long investment grade positions.

Looking forward, we feel the US economy will remain weak for the near term. Concerns over high energy and commodity prices, weak housing, the credit crunch, and future inflation will continue to dominate the landscape. Consumer spending will continue to be adversely affected by these factors and corporate spending appears to be under pressure as well. However, massive US policy stimulus, bank balance sheet repair, and strong non-US global growth will lead to better times in the US economy down the road. The financial markets have begun to discount this potential improved scenario. Equities have moved higher, credit has tightened and interest rates have risen. Accordingly, we have positioned our portfolio with a constructive (not yet bullish) viewpoint. Leverage has been increased slightly and we have enlarged the portfolio's sub-investment grade exposure, specifically in the technology sector. Currently, the predominant risk in the marketplace is the continued upward march in crude oil prices. We will monitor this closely and prepare to take a more conservative investment stance should this risk become more problematic for the markets. Otherwise we continue to see significant value in credit, both in the high-yield and convertible markets

LRG Capital Commercial Ventures and GE Capital Solutions Provide \$5.8 Million in Financing to Lyons Group Ltd

LRG Commercial Ventures, in conjunction with GE Capital Solutions, Franchise Finance, announced a financing agreement that provides a total of \$5.8 million to Lyons Group Ltd, a multi-concept operating company. Lyons Group will use \$3.6 million to refinance debt, a \$500,000 line of credit for improvements to their "Game On" Fenway sports bar, and a \$1.7 million for construction of a new restaurant, or the renovation of a current location reflecting their new growth concepts.

Lyons Group, Ltd. is headquartered in Boston, Mass. and owns and operates multiple hospitality and restaurant concepts. Their portfolio of venues includes Sonsie Restaurant, Lucky's Restaurant and Lounge, and "Game on" Fenway, one of their most well-known restaurants, located in historic Fenway Park.

GCC Strategic Alliances Continue to Build Momentum

Lastly, we continue to see benefits from our strategic alliances in the Middle East with **Nahkeel, RetailCorp, Seven Tides and Leisurecorp** in Gulf Cooperation Council (GCC) countries, where we are co-developing restaurants, leisure complexes and retail outlets.

All of our partnerships are driving new investment opportunities and strong strategic and financial co-investors to the firm. Our success is closely associated with your continued support and investments.

For more information, visit www.lrgcapital.com or contact Alexis Banducci at: abanducci@lrgcap.com or 415.834.4664

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